

Mrs Thatcher pledges no sellout on Ulster

The Prime Minister said last night that there was no sellout over Northern Ireland's constitutional position. Those who said otherwise were wrong or had chosen not to understand the purpose of the British Government's talks with the Irish Republic. The discussions, she told a dinner at Stormont, were aimed at securing peace and posed no threat to Ulster.

Reassurance on talks with Mr Haughey

By George Clark
Political Correspondent
Mrs Margaret Thatcher, on her first visit to Northern Ireland since her election as Prime Minister, went out of her way last night to give new assurances to the people of the province that there was no question of their not remaining citizens of the United Kingdom.
That would be so, she said, unless the Ulster people and the Parliament at Westminster decided otherwise. Obviously seeking to clear away suspicions that her talks in Dublin were in some way designed to change the constitutional position, she stated firmly: "This is the law of the land... It is fundamental to the Government's thinking."

"It is something to which I am personally and deeply committed. Let me say with all the emphasis at my command that there is no plot. There is no sell out."
Those who argue otherwise have simply got it wrong and are choosing not to understand the purpose of my discussions with Mr Charles Haughey."
Mrs Thatcher, speaking in Stormont at a dinner given by Mr Humphrey Atkin, Secretary of State for Northern Ireland, said that everyone had a common interest in peace and reconciliation.
"We all have a common interest in creating a society where the gunman has no place and where he will no longer be able to kill, and maim innocent people; and we all have a common interest in building better working relationships within these islands and within Europe."
Mrs Thatcher assured her audience that the discussions with the Government of the Irish Republic were directed towards those ends. "They pose no threat to Northern Ireland," she said. "We shall not be deterred by those who seek to invent one. We will not be deflected from serving the best interests of the people of the United Kingdom, including the people of Northern Ireland. Attempts at intimidation will fail. No one in Northern Ireland stands to gain from them. The rule of law must apply to everyone."



Mrs Thatcher at Stormont last night with Mr John Hume, leader of the Social Democratic and Labour Party.

Thatcher economic policy 'not soundly based' all-party MPs' committee says

By John Whitmore
Financial Correspondent
With the Budget less than a week away, an influential all-party committee of MPs yesterday strongly criticized government economic policy, saying its medium term financial strategy "was not soundly based."
The committee described the medium term financial strategy, which sets out the basic framework of the Government's objectives through to 1983/84, as a "bold experiment."
Mr Edward du Cann, a leading Tory backbencher and chairman of the Commons Treasury Committee which drew up the report on monetary policy, said yesterday that the emphasis of the report was intended to be on the need for a more flexible approach by the Government.
The report concluded that the Government's hopes that it could rapidly influence expectations about wages and prices by setting out a medium-term path for monetary growth have been unsubstantiated.
There was even less chance that such a policy could have worked, given that the monetary targets set out have not been met and have therefore lost credibility.
The influence of monetary policy on wage and price inflation did not appear primarily through the setting of targets or through expectations, but rather in the short term through the lowering of economic activity and the



Indian lathi charge: Police dispersing stone-throwing student demonstrators in the Gujarat city of Ahmedabad, where there is mounting protest against the reservation of university places for low-caste people.
The authorities have asked of considerable violence during recent weeks, to surrender their firearms to the police in the interest of order—Trevor Fishlock writes from Delhi.
In the city of Baroda, western Gujarat, police wielding lathis broke up a protest rally of 2,000 schoolchildren yesterday. The children were supporting medical students who have been protesting for several weeks against the number of low-caste people being given places in medical schools under a caste quota system.
The demonstrating schoolchildren were dispersed by what police called "a mild lathi charge". A lathi is a cane about four feet long and over an inch thick.

Mr Heath to undergo medical treatment

By Our Political Staff
Mr Edward Heath, Conservative MP for Bexley, Sidcup, and Prime Minister from 1970 to 1974, announced yesterday that he is cancelling all engagements for two months to undergo medical treatment.

According to a close friend, he is being treated for a glandular complaint.
Mr Heath said that he had taken his decision with regret but on the advice of his doctors. On his behalf it was stated: "He will be resting at home or staying with friends while undergoing medical treatment, which his doctors expect will lead to a complete recovery."

"Afterwards he will resume his full political and other activities."
Mr Heath was not in his usual form when he attended the reception at the Commons on Wednesday to mark the centenary of the Parliamentary Press Gallery. He said then that he was having to take things easy and had given up the prospect of yachting for some time.
Yesterday he addressed the British Consulars Association in London; his last public engagement before beginning his rest. He cancelled his engagement to address a Young Conservative dinner at St Stephen's Club in London last night.

Mr Heath entered Parliament in 1950. He became Leader of the Opposition and of the Conservative Party on August 2, 1965, after winning an overall majority on the first occasion on which the leader was chosen by an electoral process.

He resigned as leader of the party and the Opposition in February, 1975, when he failed to top the first of two ballots for party leadership. The ballot was won by Mrs Margaret Thatcher and when she formed her Government in February, 1979, Mr Heath declined to serve.

Tug in Channel chase after shots are fired

By Richard Ford
Nine men believed to be Dutch and Belgian were being questioned at Newhaven, Sussex, last night in connection with alleged customs cutters had chased a tug across the Channel.
The Panamanian-registered tug Sea Rover was boarded by British customs officers two and a half miles off Beachy Head, where it had been fired on by a French warship and a fire had broken out at the stern. The vessel was escorted into Newhaven harbour by high-speed customs cutter Seeker and the crew of the Sea Rover was taken ashore the bearded Dutch captain, wearing a hooded brown anorak, shouted: "I did not stop when requested to do so by the French naval vessel because I was in international waters."

"They opened fire and we fired back," he said. "Otherwise someone would have been killed. We have no drugs on board." One of the French Navy patrol boats, which had followed the tug, said it had fired at the vessel. It did not stop as it was necessary to open fire.
Earlier, three French customs vessels in a joint operation involving the British had followed the tug. The tug was seen to be carrying a blue and yellow tug as she left Boulogne. She was intercepted but failed to heave to and customs cutters pursued her across the Channel.

When the French intercepted a shot was fired across the bow of the boat and then the funnel was riddled with shots. A fire started in the stern and the Sea Rover put out a distress call which was picked up by English coastguards. A man at Fairlight coastguard station, near Hastings, said: "It was very exciting as we could hear what sounded like machine-gun fire as the May Day call came over."

"I heard a man saying 'The French are firing at me, the French are firing'." He said he was Dutch and that the shots were being fired while he was in international waters.
Mr Robert Marchant, a coastguard pilot who flew over the tug when she was five miles off Beachy Head said he saw the crew throwing flaming debris overboard.
The May Day call was cancelled after coastguards were told that a French warship was under control but merchant ships were warned not to go to the tug. Monitoring techniques in Dover were able to track the ship's course.
As the unarmed British customs officers boarded the Sea Rover, the French customs cutters, with armed men aboard, under control but merchant ships were warned not to go to the tug. Monitoring techniques in Dover were able to track the ship's course.

Social Democrats and Liberals in first joint motion

Liberals and Social Democrats used proportional representation as a device to provoke debate in the Lords and thereby celebrated their first joint parliamentary motion. In the Commons the two groups won by left-wing Labour criticisms urging them to resign and fight by-elections. The new group is to put up two speakers on different days during the Budget debates. The Government Chief Whip has forbidden Conservative MPs to make pairing arrangements with Labour MPs who have resigned their whip to become Social Democrats. The ban starts on Monday, and among those affected will be Sir Geoffrey Howe, Chancellor of the Exchequer.

£6,000m CBI call

The Confederation of British Industry called for increased government spending totalling £6,000m over the next four years to restore industrial growth and reduce unemployment. Sir Torrence Eckstein, director-general, said there was a "pressing need" for the Government to recognize the problems of the economy.

Murder trial confusion

A man dismissed his defence representatives at Birmingham Crown Court, questioned four witnesses himself, but before the court adjourned intimated that he wished to re-examine his two counsel and solicitor. David Paget, aged 31, a labourer, has denied murdering Gail Kimchin, aged 16, who died after being hit by three bullets fired by police officers.

Leader page 13
Letters: On disarmament, from Mr E. P. Thompson; civil servants, from Mrs J. Taylor, and others.
Leading articles: Iran-Iraq war: New Statesman and the Press; Council: Houses of Parliament; Features: pages 7, 12.
A testing time for Lord Thorneycroft: What President Sadat told Europe: David Blake on the gloomy economic outlook: Michael Binyon's Moscow Diary: Arts, page 9.
David Robinson reviews Ordinary People and other new films in London; John Percival interviews Christopher Bruce, four of whose works are being given by Ballet Rambert; Michael Ratcliffe previews BBC 2's Marriage of Figaro.

Sport, pages 10, 11
Football: Ball rejoins Southampton; Features on the Cup-tickets; Wrexham: Moror racism; Warring bodies reach agreement; Ice skating: Confident start by British champions in world ice dance championships.

Muslim peace mission reveals proposals for ceasefire in Gulf

From Tewfik Mislawi
Beirut, March 5

A nine-member Islamic peace commission today publicized a list of proposals it had submitted to both Iraq and Iran for ending the 24-week Gulf war.
The proposals, which were carried by the official Saudi press agency, call for a cease fire on March 12 and an Iraqi troop withdrawal from Iranian territory to begin a week later, with the proviso that it will be completed within four weeks.
[President Bani-Sadr of Iran today indicated that his country was unlikely to accept the peace proposals. He insisted on an immediate withdrawal from Iran simultaneous with any ceasefire. (Report, page 6.)]
This is the first time that specific peace proposals have been made public by any mediator in the Gulf war since it began on September 22.

The members of the Islamic commission, which was set up by the Islamic Conference summit in Taif, Saudi Arabia, last January, are the Presidents of Guinea, Pakistan, Bangladesh and The Gambia, the Turkish Prime Minister, the Foreign Ministers of Senegal and Malaysia, the chairman of the Palestine Liberation Organization and the Secretary-General of the Islamic Conference Organization.

The commission is waiting in Jiddah for reaction from Iraq and Iran to the peace proposals.

The proposed ceasefire and withdrawal of Iraqi troops would be supervised by a military subcommittee from member countries of the Islamic Conference. Iraqi and Iranian claims and counter-claims to sovereignty over the controversial Shatt al-Arab waterway would be referred to a special arbitration committee of the organization.

According to the commission's list of proposals, the two warring countries are called upon to respect each other's sovereignty and territorial integrity, renounce the seizure of land by force, pledge not to interfere in the internal affairs of each other, accept the settlement of their disputes by peaceful means and guarantee free navigation in the Shatt al-Arab.

The proposals also stipulate that as soon as the ceasefire goes into effect, a special apparatus would be formed under the aegis of the organization to ensure free navigation in the Shatt al-Arab. A peacekeeping force from the Muslim organization could be established, if necessary.

Already the release of the peace proposals has revealed the sharp disarray among Iranian revolutionary officials—divided between the fundamentalist supporters of Mr Muhammad Ali Rajaji, the Prime Minister, and the more moderate supporters of President Bani-Sadr.

One Iranian religious leader said today that Iran "should not accept anything less than the wishes of the nation, including the punishment of the aggressive Saddam Hussein (President of Iraq) and the liberation of Iraq from its usurping government."

Mr Rajaji, a strong rival of Mr Bani-Sadr, has repeatedly demanded that the war be continued until the last Iraqi soldier has left Iranian territory. He is expected to intensify his campaign against Mr Bani-Sadr, who himself has vehemently criticized the Prime Minister for the agreement he reached with the United States for the release of the American hostages last January.

Ayatollah Muhammad Hoseyn Beheshti, the head of the Supreme Court and the leader of the dominant Islamic Republican Party, said in a statement yesterday that accepting a ceasefire before Iraqi troops had withdrawn from Iranian territory would be tantamount to treason.

Iraq has not commented yet on the peace plan. Iraq started the war in the first place to establish absolute sovereignty over the Shatt al-Arab waterway. Accepting the peace plan as such would mean a significant concession. In contrast, the plan would assure Iran of a complete Iraqi troop withdrawal within four weeks.

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Japan using robots to produce robots

From Peter Hazelhurst
Tokyo, March 5

While Western managers are still attempting to introduce the first generation of advanced technology into their factories, Fujitsu's new plant near Tokyo now has robots making robots.

At the same time Hitachi, the electronic company, has just mobilized 500 scientists and engineers to produce a new generation of robots. They will be able to see, feel and walk up and down factory floors to supervise other robots on automatic assembly lines.

"In five years we expect all blue-collar workers to disappear from the assembly line. Factories will be manned only by clerical staff and a few maintenance technicians," a spokesman for the company says. Workers will be retained for other departments as business expands.

Fujitsu Fancu Ltd, one of the world's most advanced producers of computerized industrial equipment and robots, goes even further. It hopes to realize an industrialist's ultimate dream in the near future: a factory without any workers at all.

At present, Fujitsu's new plant, resembling a scene out of science fiction, employs 100 workers. They come on duty for eight hours during the day to keep an eye on rows of sophisticated robots, which churn out new robots for 24 hours a day.

Lined up around the factory are dozens of "automated cells", each consisting of a numerically controlled machine-tool and a sophisticated, computerized robot. Copper wires embedded in the factory floor guide unmanned cars between an automated warehouse and various cells on the assembly line.

Raw material is automatically loaded on to the carts and carried to the appropriate cell. There it is shaped and drilled by the computer and the numerically-controlled machine tool, returned to the unmanned cart and automatically carried on to the next stage of production.

Workers return to the factory the next morning to complete

Continued on page 6, col 1

'Times' man gets press award again

By a Staff Reporter

Robert Fisk, Middle East correspondent of *The Times*, is named today as the second successive year international reporter of the year in the British press awards. Philip Knightley, of *The Sunday Times*, is journalist of the year.

Mr Fisk's citation says his international reporting, particularly his dispatches on the Iranian war, combined meticulous detailed work with first-class descriptive writing. He receives £250.

At 34, he has been with *The Times* since 1971. He was named reporter of the year by Granada Television in 1978 for his graphic accounts of the troubles in Ulster and it was his dispatches from Iran in the wake of the revolution that last year earned him the title of international reporter of the year.

He spent several weeks last September and October covering the war between Iran and Iraq. Before that he spent several months in Afghanistan reporting on the Soviet invasion. He is now back in Beirut covering Middle East affairs.

Jeremy Campbell, of *The New Standard*, and Peter Nieswand, of *The Guardian*, are commended in the international reporter section.

Mr Knightley is named journalist of the year for his investigations into the affairs of the Vestey shipping and meat companies. He wins £1,000 for what the judges called "the outstanding series of 1980", produced after months of patient inquiry into the Vestey family fortunes.

Michael Binyon, Moscow correspondent for *The Times*, is also singled out. He wins the David Holden award (£250), created in 1978 in memory of the chief foreign correspondent of *The Sunday Times*, who was murdered in Egypt in 1977.

"Michael Binyon's reporting on Russia was one of the joys of the year," the citation says. "He combines hard reporting, descriptive writing and highly significant detail."

Mr Binyon, aged 36, has been Moscow correspondent for *The Times* since 1978.

Peter Evans, Home Affairs Correspondent of *The Times*, is commended under the specialist writer of the year award, and Harry Kerr, photographer with *The Times*, is commended under the photographer of the year award. Both receive £100.

The award for reporter of the year (£250) goes to a team of four from the *Daily Express* for their "professional handling" of the Iranian embassy siege. The combined effort of Robert McCowan, Peter Hardy,

Continued on page 2, col 2

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| Mr Frank Maguire, MP, Mr Torin Trencher | TV & Radio, 22 | Business News, pages 15-20 |
| Stock markets: Equities were dull as investor's closed their positions ahead of the Budget. Gilt showed a similar picture with falls of up to 2 1/2. The FT index closed 3.8 points down at 495.2 | Financial Editor: Barclays slow overviews | Business features: Frank Vogt describes the impact of America's mutual funds on commercial banking; Ross Davies's Business Diary |
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HOME NEWS

The silent Irish MP dies aged 51

Mr Frank Maguire, Independent MP for Fermanagh and South Tyrone, died in hospital in Enniskillen yesterday.

Mr Maguire, aged 51, who lived above the public house he owned at Lisnakeilly, was an outspoken critic of conditions for Irish prisoners in Northern Ireland and Britain.

Mr Maguire captured the seat in the October, 1974, election, and increased his majority in 1979.

Crucial occasions: Mr Maguire is remembered most at Westminster for his almost complete absence as an MP—except for the crucial occasions when his vote might have swung the end of the last Labour Government (Our Political Editor writes). It finally did so by an irony on March 28, 1979, when he flew all the way from his public house to abstain on the crucial confidence dividing which the Callaghan Government lost by one vote.

Had he voted with Labour, as he had frequently done, the tied vote would have been decided in Mr Callaghan's favour by the Speaker's casting vote. He never made a Commons speech nor put a question, but on rare occasions was known to have intervened briefly, usually from a sedentary position.

Mr Maguire was born in 1928 in Fermanagh and South Tyrone. He was a member of the House of Commons from 1974 to 1979. He died of a heart attack at Enniskillen General Hospital.

Counties are accused of subservience in education policies

By Diana Geddes, Education Correspondent

A bitter attack on the alleged subservience of the Association of County Councils (ACC) to the will of the Government was made yesterday at a meeting of the Association of Metropolitan Authorities' education committee.

Sir Ashley Bramall, leader of the Inner London Education Authority, said that a joint local government view on educational matters had become virtually impossible because the Association of County Councils takes the view that it must do what the Government says.

The ACC clearly regarded its loyalty to the Government as superior to its loyalty to local government. Sir Ashley added that no one was suggesting that the Labour-controlled AMA and the Conservative-controlled ACC should see eye to eye on every question.

"What I am talking about is a situation where we have all up to a certain point said one thing, and then the ACC suddenly disagrees because the Government has put pressure on it—and it capitulates completely."

He gave as examples the ACC's report for the new block grant arrangements for the rare support grant, the acquiescence to the 6 per cent pay limit in the public sector, and its agreement to open the negotiations on teachers' pay with a 4 per cent offer.

tion Authorities (CLEA), which is supposed to present a united local government voice on education in the AMA's and ACC's negotiations with the Government, was now "the voice of the Government's penetration into local government", he said.

Mrs Angela Rumbold, former Conservative chairman of the AMA's education committee, begged the AMA not to sever its relations with the ACC, "otherwise higher education will be taken away from local government, and that will be the beginning of the end of local government".

Mrs Rumbold was referring to leaked Government proposals to remove all higher education from local authorities and to put it under the financial and administrative control of a single national body for higher education in the public sector. The proposals are due to go to the Cabinet before Easter.

The committee passed by 20 votes to 10 a motion calling on the AMA to "critically examine its policy on cooperation with the ACC, including its participation in CLEA". Voting was strictly along party lines, with Conservatives voting against the motion.

Schools Council review: Mrs Nancy Trenaman, principal of St Anne's College, Oxford, has been appointed by the Government to carry out a review and to make recommendations on the functions, constitution and methods of work on the Schools Council.



Ken Goodwin (centre), star of "That's Showbiz", with Mr and Mrs Kendall-Lane, its producers, in London yesterday.

Producer wins a round in fight to stage Sunday shows

By Martin Huckerby, Theatre Reporter

Mr Stephen Kendall-Lane, the producer of *That's Showbiz*, yesterday won a new round in his fight to present Sunday performances of the variety show. He gained a High Court injunction aimed at preventing Equity, the actors' union, from stopping the Sunday shows in London.

On Wednesday the London Theatre Council, formed by

Equity and the Society of West End Theatre, found Kendall-Lane Productions in breach of the agreement governing West End productions, and deregistered the company as a producer. Equity yesterday issued a further instruction to its 32 members in the cast of the show that they should not perform on Sundays.

However, in the High Court Mr Justice Maise granted an injunction restraining the coun-

cil and its agents, specifically Equity, from acting on the deregistration decision.

Mr Philip Saunders, Mr Kendall-Lane's solicitor, said last night that a writ would be served on Equity today. The effect of the injunction was to prevent Equity from interfering with the show.

The injunction has delighted the cast in the show at the Phoenix Theatre, who are happy

to perform on Sunday in return for having Monday and Tuesday off.

That's Showbiz has been attracting poor audiences early in the week but better houses at the weekend, so Mr Kendall-Lane decided to present a Sunday show. The first one, last Sunday, drew an audience variously estimated as 150 or just over 200; the theatre seats about 1,000.

£2,500 for woman butted by Welsh ram

From Our Correspondent, Llandudno

A woman was awarded agreed damages of £2,500 in a civil action in the High Court at Caernarfon yesterday as compensation for being attacked by a ram.

Mrs Eva Hughes, aged 37, of Bronallt, Llangatwg, Anglesey, had been butted repeatedly by a young Welsh mountain ram when she walked along a country road near her home in 1977. She had alleged that Mr Robert Wyn Jones, a smallholder of Llangatwg, had been negligent in allowing the ram to be on the highway.

Mr Alex Carlisle, her counsel, told Mr Justice Russell: "I am pleased to be able to tell you that both parties have come to terms and that you will not be troubled by the case of the ram that rammed."

After he had mentioned the terms of the settlement, Mr David Clark, who represented Mr Jones, retorted: "On behalf of the ram, I agree."

Mrs Hughes suffered a broken leg and was in hospital for a fortnight and required bone grafting.

"It was a terrible ordeal I will never forget", she said after the case.

Housing in crisis, 3: New life for old Renovation seen as an answer in two towns

By John Young
Despite its years of decline, and its seemingly insurmountable economic difficulties, Liverpool remains a great if troubled city. In contrast Newport, a few miles inside south Wales, is a town of few distinctive features, if one expects a rather imposing civic centre.

What both places have in common is a profusion of small terrace houses, built to what now seem cramped and spartan standards, which have survived both wartime bombing and postwar comprehensive redevelopment.

Mr Barry Nutton is chief executive of one of Britain's largest housing associations, Merseyside Improved Houses. The association was founded in 1923, but its main impact has been only recent. Twelve years ago it had a mere 300 properties; today it owns and manages more than 7,000.

It has been particularly active in the inner area, where nearly a third of the population is of pensionable age. A typical small house is occupied by private tenants and has been virtually neglected for the past 50 years.

The acquisition and modernisation of such houses has been one of the association's principal aims. It is not a profitable business. The Housing Act 1980 permits rent increases in two stages in what is deemed a fair level, but even then, Mr Nutton says, income falls far short of costs.

"Effectively we have to write off the capital. We have been criticised as extravagant, and I would be the first to admit that associations are an expensive means of providing housing. But we are doing a job which local authorities have failed to do."

The Government's order last September to halt all further capital spending has had a particularly bad effect on so-called staged contracts, where tenants have been moved into tempo-

rary accommodation on the understanding that they would be able to return to their renovated homes within four to five months.

"Now we have to tell them that we are sorry but we don't know when they can go back", he says. "In other cases we have had to leave people where they are, with rents as low as 23p a week which we are reluctant to increase until we have actually done the improvements."

He is scathing about what he calls the "nanny attitude" of Department of the Environment civil servants which, he claims, has had a grave effect on morale. "At present we have architects and draughtsmen working on schemes which we don't know yet will be allowed to go ahead."

"We have been told we can proceed with one or two schemes provided the cost is kept to last September's levels, which is exploiting builders who are desperate for work."

"We don't even know our allocation for next year."

Two hundred miles south, Newport council has for some years been operating what is, in relative terms, probably the largest and most ambitious renovation programme by any local authority in Britain. Of 45,000 houses in the town, 10,000 are in designated housing action areas and general improvement areas, and work is at present under way on 3,000.

Some Labour councillors have found it hard to rid themselves of the ingrained belief that it is the council's primary duty to build new housing. But on the whole, according to David Brindley, who is in charge of the programme, there is now a "political commitment" to renovation.

Next: Aylesbury

Tory MP seeks fourth TV channel delay

By David Hewson
A Conservative backbencher called yesterday for the fourth television channel to be postponed on the ground that it could lose the Exchequer £75m a year in commercial television revenues.

After being told in the Commons that the Government was pressing ahead with the planned start for the channel in the autumn of 1982, Mr John Watson, MP for Skipton, said he would be consulting other backbenchers about continuing the campaign for the channel's postponement.

The profits of the independent television companies this financial year would be about £108m, of which £81m would go to the Exchequer in the form of levy, Mr Watson said. According to industry estimates, in 1982-83 the difference between income and expenditure would fall to about £10m because of Channel Four, its Welsh service and the introduction of commercial breakfast television.

GPs and dentists to work at department store

By Nicholas Timmins

Debenhams, the department store group, has reached agreement in principle with the British Medical Association and the British Dental Association to set up surgeries for doctors and dentists at its Oxford Street store in London, near an optician's already installed there.

The group will consider extending the idea to about 50 of its 71 stores if the Oxford Street scheme is successful.

Mr Robert Foster, a Debenhams executive, said yesterday that final plans had still to be submitted to the BMA. He hoped the new surgeries would open within three to six months.

Clinics plan: Air-Call, the communications company that runs the business side of the BMA's deputizing services, is considering launching private general practice from two clinics in north London.

Arts college clash on cuts

By Our Theatre Reporter
Mr Richard Hoggart, the warden of Goldsmiths' College, London, and vice-chairman of the Arts Council, has agreed to speak to an open meeting of students at the college later this month. It results from the picking of a lecture due to have been given by him on Wednesday, by students protesting at cuts made by the council recently.

The students' union at Goldsmiths' passed a motion last week criticizing him for condoning the removal of grants

to 41 arts organizations. The picket was organized for a lecture he was due to give to the college's drama department and the lecture was cancelled.

Dr Hoggart said yesterday that he had agreed to meet the students and to answer questions, if they withdrew the motion.

Mr Paul Blackman, a member of the students' union council, said that had been done, pending the meeting. Many of the students could be affected by the Arts Council cuts, he said.

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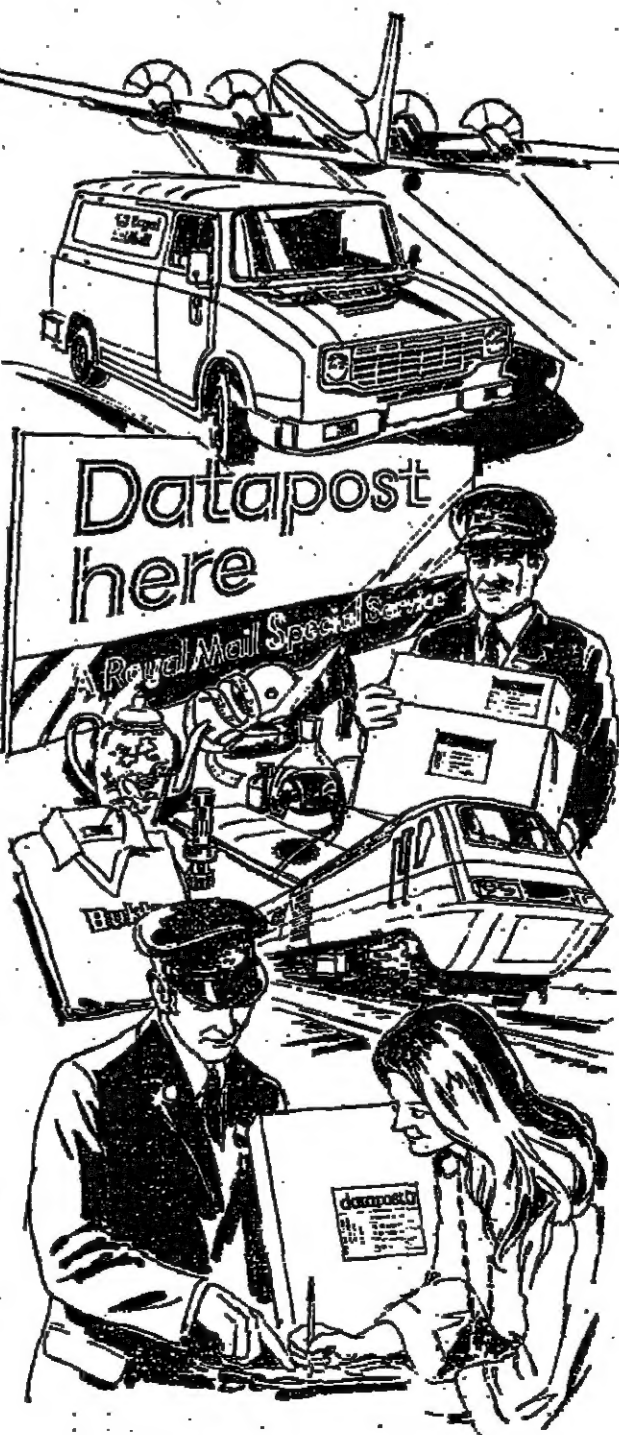
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Defence team in siege murder trial is dismissed by accused

From Arthur Osmau Birmingham

David Pagett, accused at Birmingham Crown Court of murdering Miss Gail Kinchin, yesterday dismissed his defence representatives and questioned four witnesses himself. But before the court adjourned he indicated that he wanted to re-examine his two counsel and his solicitor.

At one point Mr Pagett asked Mr Justice Park: "Would you not put your questions so obliquely, please? I am not the witness box yet. I was concerned with innuendoes and the tone of your voice."

Mr Pagett, aged 31, a labourer, of Dealands Road, Rubery, Birmingham, has denied murdering Miss Kinchin, aged 16, who died last July a month after being hit by three police bullets. Miss Kinchin, who was pregnant, was alleged to have been shot by a soldier by Mr Pagett when he fired at the police with a shotgun, and officers returned the fire.

He has also denied further charges of attempted murder, unlawfully taking away the body of Miss Kinchin, and Mr Josephine Wood, her mother. Illegal possession of a shotgun and wounding with a shotgun, causing grievous bodily harm.

Mr Rudi Narayan, for the defence, withdrew after his client had handed him a note. Mrs Wood wept as Mr Pagett then took over the cross-examination.

As she was being asked what her daughter had told her in the ambulance shortly after the shooting she burst into tears and Mr Pagett said: "There will be times when I appear to be hard on you, but I ask the

court to understand my position as well as Mrs Wood's."

When asked again what her daughter had told her in the ambulance, Mrs Wood replied: "She said 'Mom, I've been shot. I'm dying.' Mr Pagett: 'You gathered at that early stage that I had shot your daughter—my fiancée?' Mrs Wood: 'She wasn't your fiancée.'"

Mr Pagett later accused the police of "covering up" their part in the shooting and also claimed that there had been an attempt to interfere with a witness.

Subsequently Mr Pagett agreed to re-examine Mr Narayan and other defence representatives and the judge said: "The court has sought to comply with all your wishes. I am not prepared to allow this trial to linger on in the way it has been going on up to now, with constant adjournments for your convenience."

"If you tell me that you wish to re-examine Mr Narayan to defend you in this trial I will give you the opportunity of talking to him. If you have no such wish the trial will continue."

The judge then told the jury: "Very few trials have encountered the difficulties that this trial has had over the last few days. You have heard the latest exchanges between myself and the defendant."

"Having regard to the fact that the defendant faces a number of charges, including murder, I take the view that he should be given the opportunity to instruct counsel again although he resisted all my efforts to dissuade him from getting rid of his counsel."

The trial continues today.

Libyans fear 'hit teams' in Britain

By Stewart Tendler Crime Reporter

Libyan exiles in Britain fear they could be the target for fresh attacks by supporters of Colonel Gaddafi. One source in the Libyan community said yesterday that between four and six potential assassins are believed to have arrived in Britain.

Special Branch officers at Scotland Yard refused to comment on the claims of a Libyan assassin. They said they believe that Colonel Gaddafi has initiated fresh attacks on their numbers.

This week the Libyan leader marked the fourth anniversary of the foundation of the "people's congresses" in his country by declaring that the masses had the right to liquidate their enemies at home and abroad. Libyan revolutionary committees were also reported to have reaffirmed the need.

A year ago Libyan assassins struck twice in London within a few weeks and killed a journalist and a lawyer. Three men were convicted later at the Central Criminal Court but another three escaped police detection.

The six had travelled from Libya and lived in London for some weeks. They were trained by the police were well trained, tough professionals.

A few months after the attacks Mr Musa Kusa, Libya's chief representative in Britain, was expelled after repeating to *The Times* death threats against exiles.

The assassination attacks petered out both in Britain and other European countries but last week a Libyan gunman tried to attack an airline passenger in Rome and another in London, according to the source yesterday, believed that their opponents are still trying to silence a group of people said to number up to 12. One of that group is said to have narrowly escaped attack recently when a friend checked an apparently innocent meeting and discovered not one but two men waiting for him.

Invasion chief

Police at Colchester, Essex, were looking yesterday for a thief who broke into a youth centre and stole a space invader machine valued at £2,000.

Women admit helicopter jailbreak plot

Two women admitted at the Central Criminal Court yesterday that they took part in a plot to lift a prisoner out of Brixton jail, in London, by helicopter.

Margaret Parratt, aged 34, and Jacqueline O'Malley, aged 31, changed their pleas to guilty to conspiring to effect the escape of Brian Keenan. They were released on bail to be sentenced later.

The prosecution alleges that Mr Keenan was to be rescued

by armed men in a hijacked helicopter while he exercised in a wire enclosure, known as "the cage", in the prison grounds.

Five other people, including Mr Keenan and his wife, Christine Keenan, have denied taking part in the plot.

Mr David Jeffreys, for the prosecution, said both Mrs Parratt and Miss O'Malley had accompanied two men who were to have taken part in the operation.

Mrs Parratt, he said, made

Report commissioned by ratepayers cites £106,000 houses as most flagrant example of extravagance

Camden council faces bankruptcy after failing to fix next year's rate

By Ian Bradley

The difficulties besetting the London borough of Camden as a result of its last council meeting are the latest in a series of problems awaiting resolution. On the evening of Wednesday night the council failed to agree a rate for the next financial year after combined opposition to the Labour majority from Conservatives, who want a drastic reduction in spending plans, and left-wing Labour councillors, who strongly object to the cuts that have already been made in the 1981-82 budget.

The borough faces bankruptcy unless a rate can be fixed by the end of this month. The council also faces the possibility of legal action because of two separate moves. The district auditor has taken it to court after finding that supplementary payments made to manual workers since a strike in 1979 were unlawful. Last month a meeting of Labour councillors voted to end the payments from April 1.

The council has also been served with a writ issued by members of the Camden Ratepayers' Association. The writ, which was also served on 30 councillors, alleges overspending and deliberate disregard of duty.

As if that were not enough, members of the National Union of Public Employees (Nup) are threatening a series of lightning strikes in protest against the decision to end the supplementary payments and to reduce jobs in the building department.

Although the first strike, last Wednesday, had little effect on services, more disruption is threatened in the coming weeks.

But perhaps the most serious difficulty confronting Mr Roy Shaw, the council leader, is the evidence of extravagance and waste in Camden's management of its financial affairs over the past five years, which was presented in a report published on Monday.

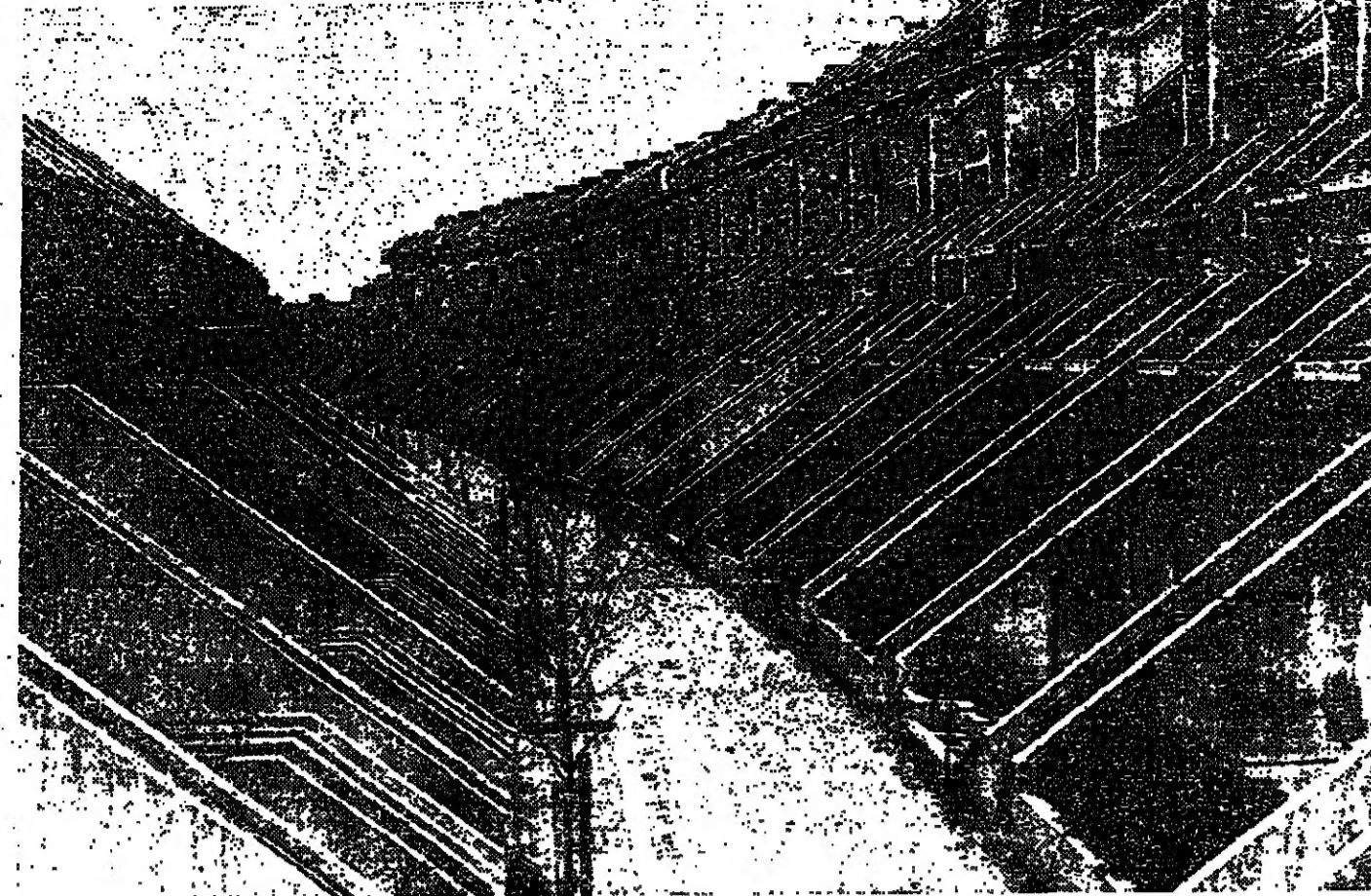
The 92-page report, *The Cost of Camden*, was written by Mr Alex Henney, former chief housing officer for Harrogate and a special adviser to the Department of the Environment. It was commissioned by the Camden Commercial Ratepayers' Group.

It says that Camden spends proportionately more and has higher staffing levels than any other council, despite the fact that it is less than 10 miles from London.

Other areas. This year, for example, it has spent £491 for every resident, more than twice as much as neighbouring Westminster, which Mr Henney regards as the most similar London borough in terms of size, social mix and wealth.

The report also says that Camden employs 40.4 workers per 1,000 population, compared with 28.4 in Westminster and an average of 16 in England and Wales as a whole. If all local authorities were staffed at the Camden level there would be a million and a quarter more council employees.

Mr Shaw accepts that Camden is a high-spending borough and that it employs more people than any other authority. However, he rejects direct comparisons with Westminster or with any other London borough.



Camden council's Alexandra Road housing development, one of three schemes that together cost more than £61m.

He says: "We have a unique combination of the very rich and the very poor in Camden, which is made up of the old metropolitan authorities of Hampstead, St Pancras and Holborn. We also have particular problems because of having three main line railway termini (King's Cross, St Pancras and Euston) in the borough."

"A large number of people arrive on our doorstep, as it were, and have to be put in bed and breakfast accommodation. In 1980 we housed the highest number of homeless families and persons of any London borough."

Mr Henney does not accept that Camden is an area of high deprivation. He points out, for example, that it has the second lowest proportion of semi-skilled and unskilled workers and the fourth lowest

percentage of children eligible for school meals of all London boroughs.

Mr Shaw maintains that many of these statistics are, in fact, a tribute to the success of the council's high-spending housing and social service departments in eradicating poverty and bad conditions. Comparable indicators at the beginning of the 1970s showed Camden to have the sixth lowest income of a household of all London boroughs.

He says that another special cost faced by the borough is the provision of social workers in hospitals, of which Camden has more than any other London borough.

Although The Hospital For Sick Children, in Great Ormond Street, is used by patients from all over the country, Camden has to meet the full cost of all

its social workers. He estimates that that costs £750,000 a year.

Mr Henney's report is particularly critical of Camden's housing record over the past 10 years. He says that delays in building new houses have been longer than in any other authority, and staff levels and costs in architects' and planning departments higher.

He also accuses the council of having built too unnecessarily high standards, using expensive materials.

He singles out three schemes, Highgate Newtown 1, Alexandra Road and Branch Hill. Together they cost more than £61m and provided 835 units. Mr Henney says that, properly spent, the same amount could have provided housing for a further 750 to 1,500 families.

The Branch Hill development, on the edge of Hampstead

Leeds, would comprise two platforms and waiting rooms. The first is to be opened in 12 months at Crossflatts, near Bingley, on the Leeds-Keighley-Skipton line.

During next year stations will be built at Fitzwilliam, near Wakefield, and Slaithwaite, near Huddersfield, followed in 1983 by stations at Bramley, between Leeds and Bradford, Lightcliffe, near Halifax, and Salford, near Shipley. Beighton, near Huddersfield, East Garforth, and Hawkesworth, near Leeds, will complete the project in 1984.

All the stations are on commuter lines and will have car parks. The stations are part of the new public transport policy, which the passenger transport executive is responsible for carrying out.

The plan was welcomed last night by British Rail,

which would be the stations

Powers of tax inspectors 'should be curtailed'

By Frances Gibb

The powers of Customs and Excise and Inland Revenue inspectors to enter and search premises, seize documents and ask for information should be curtailed, the Law Society says in a memorandum published yesterday.

In its evidence to the committee under Lord Keith of Kinkel, set up by the Chancellor of the Exchequer in October to look at the department's enforcement powers, the society says the legislation giving the powers of entry and search should be repealed.

Instead there should be new legislation, standardising existing provisions relating to the wider powers of Customs and Excise in the same way as those of the Inland Revenue, and including various safeguards.

The memorandum, produced by the society's non-contentious business committee, also says that its other chief concern is that the confidential relationship between a solicitor and client is protected.

Unless a solicitor is in receipt of income or assets passing through his hands, he should not have to disclose in reply to a request for information anything more than the identity of his client, and then only if the transaction is identified.

The prices of essential services, such as electricity, should not be searched unless there are reasonable grounds to believe that he himself is fraudulent or a party to fraud, in which case the search should be confined to papers disclosing the affairs of the solicitor.

The Law Society adds that if a search of a client's papers is permitted, the warrant should

refer to a particular taxpayer and particular documents. "At all times the confidential relationship between a solicitor and his other clients should be respected."

The recommendations are put forward, the society says, on the basis that in some cases the public interest might require revenue officials to enter and search premises, but such powers should be controlled so as to protect as far as possible the liberty of the innocent citizen.

It urges certain safeguards to be incorporated in legislation. There should be a two-stage procedure for the issue of a warrant to search, as recommended by the Royal Commission on Criminal Procedure.

The application for the warrant should be made in writing, and where it is made to a magistrate or judge it should be in the form of a deposition and lodged at court.

The warrant should specify the object of the search and the premises in as precise detail as possible and there should be a time limit on searches.

Among other recommendations, some of which were mentioned in the House of Lords case on the Rossmister finance group in December, 1979, is that Customs and Excise should adopt a code of practice in relation to all back-duty investigations providing safeguards for the taxpayer; that the mere failure to make a VAT return should not constitute a criminal offence and that Customs and Excise should use the greatest possible care in exercising powers of forfeiture.

In brief

Severed fingers sewn back

Plastic surgeons yesterday completed a 22-hour operation to sew back three fingers which had been severed in an accident with a circular saw.

The fingers, on Mr David Nash's right hand, were sewn back at the plastic surgery unit at Franchay Hospital, near Bristol. They were saved by one of Mr Nash's workmates, who put them in a bag of ice while waiting for the ambulance.

Harmans costs request

The all-party parliamentary penal affairs group has suggested that the Home Office should meet its own costs in its action against Miss Harriet Harman, MP, for contempt of court for showing a journalist Home Office documents.

Nurse elects trial

Harold Dexter, aged 59, a nurse at Rampton Hospital, Nottinghamshire, elected trial by jury when he appeared before a magistrate yesterday charged with ill-treating Mr Richard Clive Winnick, a patient, on February 5, 1979. He was remanded on bail.

Trawler arrested

The Dutch trawler Hessel Vandenberg was arrested yesterday by the British fishery protection vessel HMS Orkney and escorted to Grimsby for allegedly using illegal nets in side Britain's 200 miles fishery limit.

Assault on girl

David Allen Bobling, aged 31, said to be living in a caravan at Alvanley, Cheshire, was sentenced to three years' imprisonment at Liverpool Crown Court yesterday after admitting kidnapping and indecently assaulting a girl, aged 11, at Wallasey.

Fined woman had £500

Miss Edith East, aged 80, a homeless woman, who was fined £15 yesterday after admitting being drunk in Worthing, was said by police to have had more than £500 with her when she was arrested.

Quits for hospitals

Hospitals in north Nottinghamshire are to use Continental quilts to take the druggery out of bed making for nurses and to save £50,000 a year in laundry bills.

Top salaries chairman

Lord Plowden has taken over from Lord Boyle of Handsworth as chairman of the Top Salaries Review Body, the Prime Minister announced yesterday.

Butlins buys hotel

Butlins has bought the 157-bedroom Grand Hotel at Llandudno, one of the biggest in Wales, for an undisclosed price.

More Home News, page 21

Expertise of WPC's 'dissipated'

By Our Crime Reporter

Police expertise in specialist areas such as dealing with rape victims and offences involving children has been reduced by the integration of police women in the service, according to an article in *Police Review* today.

Examining the Sex Discrimination Act, 1975, the magazine says changes were often made with little planning and led to the dismantling of police women units without thought to the consequences.

One result was that many young officers lack the expertise of their predecessors but are still expected at times to do the same job, as well as other duties.

Liaison with local social services and other agencies has suffered, as has the handling of cases such as those of missing young girls.

While police women have gained entry to special units such as the mounted and motorcycle branches, the Act has not brought any big increase in promotions.

It says that a number of forces are considering some replacement for the old police women's department.

Departments run with a voluntary complement would be the best compromise.

Citizenship rights by birth amendment defeated

By Philip Webster Parliamentary Staff

The Home Office's obsession with possible abuses of immigration control and illegal entry had led it to oppose a "compensation" amendment to the nationality Bill that would have allowed British citizenship to be passed to children adopted overseas.

Mr Roy Hattersley, the Labour Party's chief home affairs spokesman, said yesterday: "To object to this amendment in terms of old fears that immigrants in this country are by and large not to be trusted and inclined to take advantage of any loopholes in the law is disreputable."

He told the Home Affairs Committee on the Bill, which was defeated by 13 votes to eight, Mr Richard Luce, Under-Secretary for Foreign and Commonwealth Affairs,

West Yorkshire to get nine new railway stations

From Ronald Kershaw Leeds

Nine new railway stations are to be opened by West Yorkshire Passenger Transport Executive. The plan was approved at a meeting yesterday of West Yorkshire County Council's transportation committee.

The stations, to be financed by the executive, will cost between £70,000 and £110,000 each. It is expected that a total investment of £690,000 will yield, after four years, more than £400,000 a year profit at today's prices, from additional passenger traffic.

Five of the nine stations, most of which will be unmanned, will be built on the sites of stations closed under the Beeching contraction. West Yorkshire County Council said that the stations

would comprise two platforms and waiting rooms. The first is to be opened in 12 months at Crossflatts, near Bingley, on the Leeds-Keighley-Skipton line.

During next year stations will be built at Fitzwilliam, near Wakefield, and Slaithwaite, near Huddersfield, followed in 1983 by stations at Bramley, between Leeds and Bradford, Lightcliffe, near Halifax, and Salford, near Shipley. Beighton, near Huddersfield, East Garforth, and Hawkesworth, near Leeds, will complete the project in 1984.

All the stations are on commuter lines and will have car parks. The stations are part of the new public transport policy, which the passenger transport executive is responsible for carrying out.

The plan was welcomed last night by British Rail,

which would be the stations

New rules for drug trials

By Nicholas Timmins

The British Medical Association has approved a new constitution for local ethical committees to enable them to check that research involving patients, including drug trials in general practice, are ethically sound.

The committees, one to each health district, will include two family doctors and a lay member, as well as hospital doctors,

Heath, is regarded by Camden's critics as the most flagrant example of extravagance. Each of the 42 houses cost an average of £108,000 to build. At present council tenants are paying weekly rents of between £16.04 and £17.32 for four-bedroom houses there.

Mr Shaw concedes that some of Camden's housing schemes have been extravagant and wasteful. He says: "The architects have been rather liberal in interpreting the council's specifications. What we were trying to do was to get away from conventional dreary tower blocks, to housing council tenants. We wanted some imaginative schemes. Unfortunately, it just did not come off."

On the costs of the Branch Hill development, he says that it was one of very few sites available to the borough at the time. Much of the cost lay in providing services for the site. Those are now available and would bring down significantly the cost of further building.

Mr Henney also criticises delays in implementing plans in the council's architects' and planning departments. He says the Alexandra Road development took 80 man years of architects' time and he adds that £334,000 in fees has so far been wasted in producing abortive plans for the development of a site at Swiss Cottage that has been vacant since it was bought by Hampstead Borough Council in 1953.

Mr Shaw said: "This is a very sad story. We have had dozens of schemes for development of this site, but they have all foundered either because of government curbs on capital spending or because the local residents have changed their minds about what they would like there."

Mr Henney believes the council has been allowed to get away with profligacy because of its reputation as a council of decently managed people, contributing only a quarter of the rates, less than half the proportion of most other boroughs.

He also blames the "radical chic", who he says dominate the council. "They have deceived themselves and the electorate that Camden is a place of enormous social need."

Mr Shaw replies: "We are not ashamed of being a high-spending council that provides good services. We have an excellent road network, a high proportion of council housing, and we do not know their rights, the people in Hampstead will tell them what they are."

Golf cooperative 'harmed by disloyal undercutting'

Mr Dai Rees, the former Ryder Cup captain, and his co-directors of the Professional Golfers' Association yesterday rejected accusations of blame for inefficient management.

The board claims that the cooperative which is in debt for more than £1m was harmed by the activities of some golf professionals who undercut it by dealing directly with manufacturers.

A creditors' meeting at the

Chartered Insurance Institute, in the City, was told by Mr Geoffrey Martin, the liquidator, that some professionals even threatened small cooperatives in competition with the association.

The other directors of the association were said to be Mr R. S. Jamieson, Mr R. Mace, Mr M. Selwyn-Smith, Mr E. R. Whitehead and Mr R. Nixon. Assets were estimated at just over £1m and the deficiency to creditors was put at £10,607.

Woman prisoners said to have grown cannabis

Women inmates at Ashham Grange open prison had grown cannabis in the kitchen garden there, it was alleged at York Crown Court yesterday.

Mr Roger Scott, counsel for Paul Lacey, aged 28, husband of a former inmate, suggested that there had been a flourishing drug trade at the prison.

Mr Lacey, of Princess Street, Wombwell, pleaded guilty to supplying and possessing a controlled drug.

The trial continues today.

Mr Keith Castle, the heart transplant patient, who has won his fight to insure his life. He was declared an "acceptable risk" by Sun Alliance yesterday, three months after he had asked the Life Assurance Association if any company would insure him. Mr Castle, aged 54, a builder from Battersea, London, said: "I am delighted. It means that insurance companies can accept heart transplant patients as normal, physically fit people. I intend to live for a long time yet."

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Spanish Premier will not ask Socialists to join him in coalition

From Richard Wigg
Madrid, March 5

Señor Leopoldo Calvo Sotelo has discarded any idea of forming a coalition government with the Socialists, his aides said in Madrid today.

The Prime Minister, it seems, believes that a coalition embracing more than three-quarters of the political spectrum in Parliament does not offer the best way to strengthen democracy after the failed military coup.

A meeting last night between Señor Calvo Sotelo and Señor Felipe González, the secretary-general of the Socialist Party, resulted in both sides stating their different viewpoints after analysing the failed coup.

The Socialist leader agreed to Señor Calvo Sotelo's offer to maintain a dialogue on tackling basic issues such as stabilising democracy, combating terrorism and regional devolution, all of which, if not resolved, could heighten the latent threat of another assault on democracy by right-wing elements among the armed forces.

Sensing they had King Juan Carlos's tacit approval, Señor González and Señor Manuel Fraga Iribarne, the leader of the conservatives, had both been campaigning for a broad-based coalition.

Two of Spain's most important economic figures, Señor Carlos Ferrer, the president of the Confederation of Employers' Associations, and Señor Rafael Termes, the president of the Spanish Private Banks Association, met journalists to express their disapproval of the coalition idea.

Business leaders speak out more readily on public affairs in Spain than elsewhere in Europe and the two men joined in the debate on whether a coalition was the right remedy for a threatened democracy.

While some people are citing the example of Italy's 30 years under the Christian Democrats to argue that Spain must maintain a moderate alternative, others see the threat to democracy as so grave that the two main parliamentary forces must bar the road to secession.

Señor Calvo Sotelo, who by saying "no" to the Socialists has also rejected a demand from a minority within his own party for a coalition, had already promised such reforms. Señor González, however, continues to be greatly influenced by the ideas of Herr Willy Brandt, the West German Social Democrat leader, that the best way for a left-wing party to obtain a majority of the votes is first to become "respectable" by governing in tandem with the present holder of power.

The employers' leader argued that Spain's democracy would be best served by maintaining an alternative party—unless you consider the Communists as an alternative. He added that if the Socialists won power at the next general election, employers would fully accept the popular verdict.

Señor Ferrer denied that there were members of his organization with right-wing sympathies, and also said that this organization "has not and will not back the de Gaulle option."

The bankers' leader said a coalition with the Socialists now "would be like adding water to good wine." The Prime Minister's economic programme would be more effective without them and the banks would see that he was helped.

Señor Calvo Sotelo met today Señor Carlos Garañano, the Chief Minister of the Basque autonomous regional Government. He believes that the devolution process should be carried out in a more orderly way to avoid any appearance of "unravelling" Spain and so further upsetting the military.

Señor Albert Oliart, the new Defence Minister, today began meeting all nine regional army commanders. One of the hard-line commanders, Lieutenant General Ángel Campaño, in charge of the Valladolid military region, today denied that he had been vacillating on February 23 in supporting the King.

The Government, Señor Oliart said, had decided that it would be "inopportune" to support a proposal to pardon members of the Union of Democratic Officers, which began campaigning for a more democratic spirit in the armed forces towards the end of the Franco era. Several of its leaders were severely punished and dismissed.

Señor Oliart reiterated the Government's policy not to use the Army to fight Basque terrorism, no matter how important its eradication remained for Spanish democracy. Some 250 Portuguese rightists crossed the frontier into Spain on the night of the failed coup, the Europa press agency reported today, quoting Spanish sources.

They spent the night at a farm near Badajoz and returned home after the coup failed.

Basque violence: A national police officer died today shortly after being shot in the back of the head by some young men while walking home from work in the Bilbao district of Deusto (Harry Debelius writes from Madrid). Suspicion fell on the military wing of ETA.

The victim, Señor José Luis Raimundo Moya, a section chief, was wearing civilian clothes at the time. Señor Calvo Sotelo flew to the Basque region tonight to attend his funeral.

The police today disclosed the arrest of three more suspected members of the extreme right-wing Spanish Basque Battalion in connexion with the murder of a factory worker near San Sebastián earlier this week.

Madrid newspapers today reported that at least 22 officers held in connexion with the failed coup were yesterday charged with rebellion.



Dr Frank Wiswall, an American lawyer (left), and Mr Philip Bowen, the Liberian Maritime Commissioner, at a press conference yesterday on the Amoco Cadiz tanker disaster.

French are accused over Amoco Cadiz

By Michael Bailey
Transport Correspondent

France was accused yesterday of withholding vital information on the sinking of the tanker Amoco Cadiz in 1978, partly so as not to impair its huge claim for damages arising from resulting pollution of the Brittany coast.

The key evidence withheld from Liberia's formal inquiry, whose final report was published yesterday, is a record of messages received by the French coastal station at Brest. Liberian experts believe the messages would show that the French authorities were aware of the threat of large-scale pollution much earlier than has hitherto been disclosed, but failed to take action.

The licence of Captain Pasquale Bardari as a master is now being restored. Mr Philip Bowen, the Liberian Maritime Commissioner, said at a London press conference yesterday that though the captain's failure to send out a general distress signal before the tanker grounded was "inexcusable" he had "suffered enough" in the past two years.

Captain Bardari still faces penal charges in the French courts. French claims in respect of the 230,000-ton tanker are believed to amount to more than £1,000,000, of which the

largest are by the French Government. They will be fiercely contested in the American courts later this year by insurers who believe that no more than £50m to about £100m of the claims are provable.

The Liberian report declines to censure either the tanker's owners, the American oil company (Amoco), or Captain Bardari though both are criticized for the delay in calling for help.

Nor is there censure of the owners or master of the German tug Pacific, which came to the rescue but failed to stop the tanker grounding when a tow rope broke.

The main findings of the inquiry, which was held in London, is that the accident, at that time the worst ever oil pollution disaster, was caused not by human failure but by the mechanical failure of the ship's steering gear as it proceeded up the French coast with 200,000 tons of crude oil in rough seas and gale force winds.

Mr Bowen said that France's action and inaction after the incident, its failure to provide evidence and its arrest of key witnesses were "grossly in contempt" of rulings by the International Maritime Consultative Organization governing such inquiries.

Liberian experts admitted yesterday that individual French experts had been helpful and friendly, but cooperation had apparently been forbidden by the French Government on the grounds that it did not wish to be seen to approve of a flag of convenience inquiry, and that certain evidence in its possession might affect the civil action.

The report finds that "the authorities in France have still persisted in their refusal to disclose relevant documents" and while some had become available later through proceedings in the United States, these "unhappily did not include any copy of the records maintained by the radio station at Brest, which is under the control of the French Government."

France's behaviour, the report says, was "in marked contrast to that of the British Post Office, who readily consented to an order of the English High Court of Justice requiring [it] to produce copies of the relevant radio messages picked up by British radio stations."

While the tanker was of high quality and had a highly trained crew, Amoco was criticized for a section of its operations manual for tankers, which required a master to contact shore office where possible before accepting outside assistance.

"The time spent by Captain Bardari in seeking to obtain instructions from his owners when his vessel was in a position of grave peril suggests that there was in his mind some degree of confusion as to the extent of his own responsibility."

A "special citation" is to be awarded by Liberia to Captain Leslie Maynard, a British safety expert, who was on board at the time and who "risked his life in the finest tradition of the sea to stay with Captain Bardari and the ship although he had no duty to do so." The French Navy Helicopter Service was awarded a citation for "prompt, brave and efficient" conduct of a rescue operation without injury or loss of life.

US urged to set example for Europe

From David Cross
Washington, March 5

Before "twisting the arms" of the West Europeans to increase their military spending, the United States should concentrate first on setting an example by upgrading its own defences, Senator John Tower, the chairman of the Senate armed services committee, said today.

But, he told a breakfast news conference organized by Foreign Policy magazine, he had no doubt that once the United States had acted to increase its defence spending, "then we will be urging Europe to do more."

Senator Tower, a Republican hawk from Texas who took over the chairmanship of the powerful Senate armed services committee from the Democrats at the beginning of the year, was responding to reporters' questions about the plans announced yesterday by Mr Caspar Weinberger, the Defence Secretary, to increase the defence budget annually by 7 per cent in real terms over the next five years.

The senator made it clear that although the new Administration had suppressed its public criticism of the Europeans for not doing more to boost their defence spending for the time being, there remained considerable criticism among his colleagues in Congress about the poor performance of the allies. He recognized, however, that some European countries had political as well as economic problems.

Storm over tribute to Dönitz by Army union

From Patricia Clough
Bonn, March 5

The main West German soldiers' trade union has incurred the wrath of the Bundeswehr chief by criticizing the ban on military uniforms at the funeral of Hitler's successor, Grand Admiral Karl Dönitz.

Liberian experts admitted yesterday that individual French experts had been helpful and friendly, but cooperation had apparently been forbidden by the French Government on the grounds that it did not wish to be seen to approve of a flag of convenience inquiry, and that certain evidence in its possession might affect the civil action.

It criticized the Defence Minister's ban on uniforms at the admiral's funeral on January 6 as "making the citizens in uniform who wanted to pay a last tribute to the deceased invisible and insecure." Disciplinary proceedings are in progress against two reserve officers who defied the ban.

Admiral Dönitz, architect of the submarine war against Britain, was the last commander of the wartime German Navy and after Hitler's suicide he became the head of the doomed Third Reich.

Herr Hans Apel, the Defence Minister, forbade uniforms at his funeral because he was not only a soldier but a leading figure in the Nazi state. Dönitz "never left any doubt that he identified with the aims of National Socialism," he said. Herr Erwin Horn, deputy chairman of the Bundestag

defence committee, said the tribute was in "extreme bad taste". Between 20 and 30 members have resigned from the union in protest.

General Jürgen Brant, general inspector or chief of the Bundeswehr, wrote a sharp letter to the organization saying he was "surprised and shocked" at the "one-sided and polemic" protest.

Some members, he said, might remember Dönitz for saving thousands of refugees fleeing from the east, but others would see him primarily as one of Hitler's followers whose lack of critical thought had made the war possible in the first place.

The attitude of the Bundeswehrverband was "appalling" considering that it did not devote a single line to the death last year of Dr Fabrian von Schlabrendorf, a leading member of the June 20, 1944, assassination plot against Hitler.

Herr Peter Raabe, spokesman for the Bundeswehrverband, said this month's edition of the head magazine in the full text of Herr Apel's statement on the uniform ban and a few lines clearing up "misunderstandings."

The union did not intend to make Dönitz a model for the Bundeswehr but protested against a growing tendency by the ministry to "hide" the armed forces by forbidding members to wear uniforms on non-official occasions.

"We are not in favour of people going to the funeral in uniform but we are against them being forbidden to do so," he said.

Dutch optimistic about EEC farm budget cuts

From Michael Hornsby
The Hague, March 5

EEC expenditure on agriculture, long one of the main targets of anti-market forces, could be brought down from 70 per cent to 60 per cent or less of the Community budget over the next two or three years without big structural reforms, it was claimed today.

This slightly optimistic prognosis was offered by Mr Gerrit Braks, the Dutch Agriculture Minister and current president of the EEC's Council of Agriculture Ministers, in an interview here with foreign journalists.

Mr Braks says that the 60 per cent target could be achieved even if this year's EEC farm price increase was greater than the average 7.8 per cent rise proposed by the European Commission and some other proposals to curb overproduction were discarded.

The main basis for Mr Braks's optimism was his belief that world food prices were likely to remain relatively

buoyant for the foreseeable future, thereby greatly reducing the cost of subsidizing the export of EEC food surpluses.

Mr Braks said studies by the United Nations Food and Agriculture Organization showed that "the world food market is going to be quite different over the next 20 years."

The sharp increase in the cost of fertilizer would also remove an important stimulus to overproduction of farm produce in the Community, he believed.

The minister said he was "happy to see what is happening internationally because it will reduce pressure for radical restructuring of the Community budget, which could not be done without changing the basic principles of the common agricultural policy."

Mr Braks said he was hopeful of achieving a farm price settlement by April 1, and that he expected member states to agree on a figure slightly higher than the Commission's proposed increase. But he added that if the increase went into double

figures it would be "very dangerous". He thought it would be politically "very difficult" to get agreement on a proposed "supertax" of £45 a tonne on excess milk production, and he expected that agriculture ministers would reject proposals for reducing price support for cereals and some other products when output passes a certain level.

Mr Braks made it clear that he regarded the dairy sector as the only one suffering chronic overproduction, and that it would be much less reasonable to impose financial penalties on farmers in other areas of production.

The Commission estimates that its own proposals, which also include a 6 per cent revaluation of the British "green pound", could be financed within the expenditure planned for this year without resort to a supplementary budget.

Even though Mr Braks's view of future world market trends would be challenged by some

Indian chiefs scrutinize Paris treaty for rights

From Charles Hargrove
Paris, March 5

Chief Big Louis, of the Hurons, traditionally allied to France since the eighteenth century, and Chief Andrew Delisle, of the Mohawk-Iroquois, called this morning at the archives of the Quai d'Orsay.

The two Canadian Indian chiefs were anxious to see the original text of the Treaty of Paris of 1763, under which France was forced to cede Canada to Britain at the end of the Seven Years War. They wanted to ascertain whether, as they had been told, Britain had undertaken by this treaty to respect the rights of the Indians with whom France had signed agreements before the surrender of "New France."

The French Foreign Ministry is rather black about colourful visitors from overseas, and it takes more than an Indian chief with two feathers stuck in his long plaits of greying hair to shake the compulsion of the Quai d'Orsay ushers.

One can see very Parisian Indians about the streets, barring the feathers perhaps, every day. But Big Louis is a fine giant of a man, who speaks French like the Québécois. His companion, Chief Andrew Delisle, whose tribe was traditionally allied to the English, also has distinguished looks.

They were, unfortunately, disappointed in their search. There is nothing specific in the Treaty of Paris about the rights of the Indians, which could be used as an argument in Ottawa that their tribes constituted a nation which had never abdicated its rights.

All that is says is that "the inhabitants, French or otherwise, who had been subjects of the most Christian King, will be able to retire in complete safety and freedom wherever they wish and sell their possessions, provided it be to British subjects."

The two Indian chiefs expressed great interest, however, in this clause, because of the expropriation of which they were the victims in the past. Their spokesmen said they were demanding the right to participate in the negotiations between the Canadian Government and the provinces on the repatriation of the Canadian constitution in order to obtain the status of a province in turn.

They further emphasized that they had never had any part in the drawing up of the Canadian constitution although the preamble of the British-North America Act specified that the three "nations" of Canada—British, French and Indian—should do so.

The two Indian chiefs will be joined tomorrow by Mr Del Rile, the chairman of the "National Fraternity of the Indians of Canada," the real "government" of the Indian. The two chiefs were anxious to make it clear that they were not in Paris to meddle in French politics, or to create difficulties between France and Canada.

Mitterrand escape route retraced

From Gretel Spitzer
Berlin, March 5

Herr Willy Brandt, the chairman of the West German Social Democratic Party, and M François Mitterrand, the French Socialist leader, met on the Berlin-West German transit route in East Germany today.

Mitterrand, a former inmate of a German prisoner-of-war camp, was retracing the route he took when he succeeded in escaping from Thuringia in 1941 after two failed attempts.

He met Herr Brandt after visiting Rudolstadt, where he was brought after being taken prisoner in June 1940. Groups of East Germans were reported to have waited for Mitterrand hoping that Herr Brandt would also come.

It was not, however, far from Rudolstadt, that Herr Brandt, then West German Chancellor, was cheered by East Germans during a meeting with the East German party leader.

After meeting each other, Herr Brandt and Mitterrand passed the inter-German border checkpoint and continued their trip through West Germany.

West German correspondents accredited to East Germany were not permitted by the East German authorities to be present at the meeting of the two politicians on the ground that it was a private affair.

Recurring earth tremors create alarm in Athens

From Mario Modiano
Athens, March 5

A series of severe earthquakes rocked the south of Greece and the area of Athens in the past 24 hours, causing widespread damage to village houses and arousing considerable alarm among the population.

Three deaths caused by heart attacks in the Athens area were attributed by the authorities to the powerful shock measuring 6.2 degrees on the Richter scale which occurred shortly before midnight last night.

This was followed by a tremor of 5.2 degrees soon after 3 am. But it was an earthquake rating 5.8 degrees at 9 am today that renewed the panic, causing many Athens shops to close, and people to drive away and spend the day in the open.

Seismologists have been trying to reassure the public by insisting that the mere aftershocks of the violent earthquake measuring 6.6 degrees on

February 24 which caused at least 18 deaths.

Professor Ioannis Drakopoulos, the head of the Geodynamic Institute of the observatory, said that last night's strong tremor implied a discharge of pent-up geological energy which would result in limiting the number and intensity of the aftershocks. "The likelihood of another tremor of the magnitude of last night's earthquake is extremely limited," he said.

There is, however, some concern because the epicentre of the earthquakes, situated in the Gulf of Corinth, has evidently shifted nearly 10 miles in the direction of Athens.

Reports that last night's earthquake had caused tidal waves along the Corinth coast, could not be confirmed.

The British Government, responding to an appeal from NATO in aid of the Greek earthquake victims, is sending 250 tents to provide temporary shelter for the homeless.

Sale to Taiwan approved

The Hague, March 5.—The Dutch Parliament today formally accepted the Government's decision to approve the sale of two submarines to Taiwan.

The outcome had been clear since last Thursday, when dissidents within the Christian Democratic Party of the ruling coalition said they would not challenge the Government.

The lower chamber of the Parliament defeated two

motions today, one "regretting" the Government's decision and a tougher motion "disapproving" of it.

In December, the Parliament narrowly approved the Cabinet's decision to grant an export permit to the Rijn-Schelde-Verolme shipyard in Rotterdam, which is negotiating a 1,000m-guilder (about £200m) deal including the two submarines.

China then put pressure on The Netherlands.

Four cleared by Rome court of aiding terrorists

Rome, March 5.—Four people were found not guilty by a Rome court today of crimes against the state in publishing a magazine that regularly printed material from terrorists groups such as the Red Brigades.

The four, including two lawyers, were charged with supporting terrorists groups by publishing the documents.

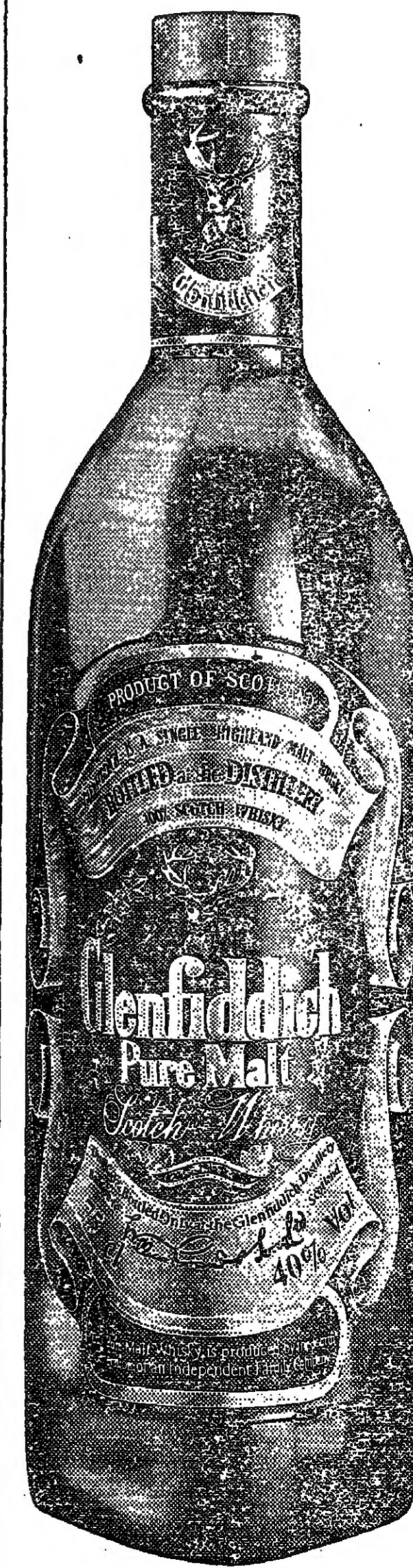
Judge Sergio Soricchilli ruled that the publication of the documents by Signora Giovanna Lombardi and Signor Eduardo di Giovanni, both lawyers, and two other men who ran the magazine did not constitute a crime. UPL

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Russia puts pressure on Polish party to adopt tough policies

From Michael Binyon
Moscow, March 5

Yesterday's important meeting between the Soviet leadership and Polish party leaders regarded in Moscow as clear evidence that the Russians now intend to put strong pressure on the Polish leadership to take a tougher line in restoring things to normal. But a dangerous confusion has arisen over the translation of a key phrase in yesterday's lengthy communiqué.

Mr Stanislaw Kania, the Polish party leader, General Wojciech Jaruzelski, the Prime Minister, and other leading figures in the Polish party gave an undertaking to the senior members of the Soviet Politburo to act swiftly to overcome anarchy and disorder in Poland and to strengthen the socialist system.

At the same time the Russians said they were confident that Polish communists have the possibilities and strength to turn the course of events, to eliminate the dangers hanging over the socialist gains of the Polish people.

In the Russian Text the word used for "turning" the course of events can also be translated as "stopping" or "stopping the low of events. But in the Polish text it translates more accurately as "reversing" the course — a far stronger demand, which suggests that the Russians are expecting the Polish leadership to test up its agreements with Solidarity, the independent trade union, and to go back to the situation prevailing before the beginning of the Polish crisis last summer. In Russian the word "stop" is used to convey that impression.

The nuance is of some significance. For though it is clear

that Moscow would indeed like Poland to restore the concessions made to Solidarity, most of which are unacceptable to orthodox Soviet communism, it is thought unlikely here that the Soviet leadership would demand that the Polish party should pledge itself to do something that would certainly provoke a serious new crisis in the country.

Nevertheless, there is no doubt that the Russians, led by President Brezhnev, had some straight talking with Mr Kania and his colleagues. Moscow has already made the serious public allegation that counter-revolution is engulfing Poland, and the communiqué emphatically restated the so-called Brezhnev doctrine of limited sovereignty, demanding that the defence of communism in one country was the concern of all other fraternal communist countries.

With that congress out of the way, however, and given the public endorsement of Soviet declarations during it that Moscow would "not abandon its ally in its hour of need," the Russians may now feel they have a freer hand to concentrate on the Polish crisis.

The prominence given by the East German press this morning to yesterday's meeting suggests that the Soviet side put forward some tough demands for immediate action by the Polish party — action that the hard-line East Germans have long been calling for.

One such demand was the Soviet side of such figures as Mr Mikhail Suslov, the veteran ideologue, Mr Yuri Andropov, the head of the KGB security forces, and Marshal Dmitry Ustinov, the Minister of Defence, is a clear indication of the areas the Russians feel are threatened by the events in Poland.

Kania problems over rank-and-file demands

From Dena Trevisan
Warsaw, March 5

Mr Stanislaw Kania, the Polish party leader, and General Wojciech Jaruzelski, the Prime Minister, returned from Moscow last night with the Soviet leadership's expressed trust in the Polish Communists' capability to "reverse the course of events," but also with an implicit note of warning that the over leaders expect them to move faster and more decisively against what Moscow regards as a dangerous trend.

This gives the Poles the necessary time but it also increases the pressure from the Warsaw Pact countries in whose arms President Breznev was speaking.

Moscow evidently expects the Polish party to assert itself more forcefully after months of official paralysis. This is precisely where Mr Kania faces the most serious problem with his party's rank and file agitating for profound democratic reforms and flooding the leadership with demands for structural and statutory changes that would enable membership to control and influence the leadership's policies.

To ignore the demands

means for the leadership to risk losing the base especially as the strongest pressures for changes come from party groups in industrial enterprises and from the workers themselves.

Preparations for the party congress proceed in a highly politicized atmosphere in which the base is challenging the whole structure of "democratic centralism" and agreement will obviously demand much time to be achieved.

The response to General Jaruzelski's call for a 90-day truce in labour relations has been good but the truce is fragile and can be easily upset, especially as food shortages are increasing and queues for basic commodities become longer each day.

In Poznan a meeting of Rural Solidarity has been called for Sunday to press for formal recognition of the peasants' union.

In what appears to be a sign that the authorities have decided to make a tougher line towards dissidents, Mr Jacek Kuron, leader of the Self-Defence Committee KOR, was today ordered by the police to be charged for questioning on charges of slandering the state.

Robots bring Japan little loss of jobs

Continued from page 1

he final assembly of a new generation of automatic robots which are being snapped up by Japan's efficient industrial plants. At present the plant produces 100 sophisticated robots a month.

Fujitsu estimates that a conventional plant would have to employ five times as many workers to produce the same number of sophisticated robots. By 1985 Fujitsu plans to produce four times as many robots and automatic machines with only 200 employees, about one-fourteenth of the workforce required in a normal plant.

The president of Fujitsu, Mr Seiemon Inaba, says the company's ultimate aim is to build another robot by 1985 which will completely resemble the finished product. "That is my dream," he says.

Much to the consternation of the West's unimpaired industrialists, this new generation of robots and automatic machines is expected to increase the productivity of Japan's already highly efficient plants by 70 per cent in the 1980s.

Yet while boasting of the world's most highly automated industrial plants, Japan has only 2 per cent rate of unemployment, the lowest among the world's leading industrial democracies.

In fact, the trade unions here have not resisted the introduction of robots and new technology which have eliminated dangerous and monotonous jobs in many factories.

According to the Japan Robot Association, 60,000 sophisticated robots are turning out high quality cars, cheap electronic equipment, new robots and other industrial products.

American industrial plants produce a mere 3,000 sophisticated industrial robots, defined as automatic equipment which can perform more than one function. West Germany, one of the world's leading industrial powers, is equipped with only 850 robots, and Britain with 150.

Reflecting the view of the trade unions, Mr Seigo Kojima, a spokesman for the Japanese Council of Metal Workers, says: "We need our robots."

Mr Shamir to meet Pope today

From Christopher Walker
Jerusalem, March 5

Traditional differences between the Vatican and Israel over the status of Jerusalem and its holy places are expected to recede in Rome tomorrow when the Pope John gives an audience to Mr Yitzhak Shamir, Israel's hardline Foreign Minister.

The controversial meeting has been arranged at Israel's request and will be the first between the Pope and an Israeli Government minister. In the past a small number of leading Israelis have been granted papal audiences, including Mr Moshe Dayan in 1977 and the late Mrs Golda Meir in 1973.

A spokesman for the Israeli Foreign Ministry explained today that his Government recognized the importance of maintaining "cordial contact with the papacy, although the Vatican had never recognized Israel 'de facto or de jure' and the two states have no formal diplomatic ties.

27 prisoners burnt to death in Peru

Lima, March 5.—Twenty-seven prisoners were burnt to death in a prison riot here today when a gang of inmates doused their locked cells with paraffin.

Nineteen prisoners were also stabbed with homemade knives and severely hurt in the fight at the three-storey concrete building in central Lima, which was designed to house 250 but had a population of 1,096.

The fighting resumed and more than 100 inmates not involved in the dispute took refuge in their cells on the third floor of the prison, he said. Someone placed a master bar across the cells, Señor Vazquez said, preventing the inmates from escaping.—AP.

Spate of Solidarity publications helps to slake thirst for truthful information

Polish battle lines form over explosive censorship issue

By Timothy Garton Ash

Like the silence of a truce after prolonged fighting, the peace which descended on Poland last week seemed unnatural.

Intermittent sniping could be heard from the government benches. But the main action moved eastward to Moscow, where Poland's fraternal comrade declared their sort of solidarity with Mr Kania, the party leader, and west to Paris, where Poland's capitalist creditors met behind closed doors.

Meanwhile a large public is being shunted back and forth across the no-man's-land between Solidarity and the authorities, marked "Danger, High Explosive: Censorship". Both sides are aware just how explosive is the censorship issue.

During a turbulent discussion in the heady days of the Gdansk shipyard occupation last August a young writer leapt to his feet demanding total abolition of censorship.

"Remember what happened when the Czechs abolished censorship in the summer of 68?" came the prompt reply from Mr Bogdan Lis, the young workers' leader who last weekend came to Britain at the invitation of the TUC.

The censorship, a prominent literary critic admonished me, is as vital to the Soviet system as the Warsaw Pact. Certainly the Soviet ambassador to Warsaw is known to have intervened to block or "correct" reports in the Polish media.

The Poles also take censorship seriously. For example the censors' Central Office stipulates: "Absolutely no information is to be published about the Katowice mine disaster in which 40 miners lost their lives." "All publications presenting statistics of safety and hygiene at work or occupational diseases must be withheld" and "Figures illustrating the state and growth of alcoholism in the country are not to appear in the mass media."

These examples are taken from 600 pages smuggled out by a disillusioned censor in 1977 (*The Times*, September 26 and 27, 1977). Copies were resmuggled back into Poland where they were published by the opposition Social Self-Defence Committee KOR and read by, among others, workers in the Baltic ports. Which is why freedom of expression came immediately after the right to form free trade unions and the right to strike in the Gdansk demands.

The Gdansk agreement of August 31 stated that a new censorship law should be presented to Parliament within three months.

Six months later a parliamentary commission is still struggling to amalgamate two



Information service: People crowd into a Solidarity office in Warsaw in search of advice and the daily news-letter.

separate projects: a government scheme prepared by the Ministry of Justice and an independent draft prepared by a committee representing writers, journalists and film-makers.

Although the secretaries of the Writers Union and the PEN club emphasize their opposition to censorship in principle, they agree that in practice Poland's geopolitical position makes some restrictions unavoidable.

The country's system of alliances, its constitution (enshrining socialism), state, military and economic secrets must be counted among the herd of sacred cows.

The argument now revolves around the definition of these prohibited areas. In the original government draft the definitions were so elastic as to permit the operation of the censorship much as before. The authorities are also stubbornly refusing to place the censor's office under parliamentary control.

But they have conceded a measure of judicial supervision and censors will be obliged to give written reasons for their decisions which can then be challenged in a court of law.

They have also promised to drop the practice of censoring the author rather than the text. Until recently it was forbidden so much as to mention the names of party exiles and opposition writers in official publications.

This long blacklist of literary unpersons, which incidentally

included the greatest living Polish author (last year's Nobel Prize winner, Czeslaw Milosz, for example) will be torn up.

Already the unmentionables have been mentioned and the unpublishable published in the main literary and political weeklies. The books will take longer to appear.

Such is the popular hunger for truthful information in Poland today that there are queues at the newspaper kiosks as long as those outside the butchers' shops.

Arguably, the demand for truth is closely related to the supply of food. As the German philosopher Ernst Bloch once remarked, men do not live by bread alone, especially when they have none.

In Poland the supply of truth, like that of meat, varies greatly from day to day and place to place although it is everywhere less than adequate.

What I can write in Cracow, I can't write in Warsaw, what I could write yesterday I can't today," a party journalist complains.

The Cracow party newspaper, along with those on the Baltic coast, is among the most audacious. Under a new editor it took up an environmentalist campaign last autumn against the Huta Skawina aluminium works near by.

Pollutants from Huta Skawina have been poisoning the air and ruining the facades of a city which combines the charms of Oxford and Vienna. The author-

ities have promised that the offending works will be closed — an example of what can happen if you unuzzle the press.

But since Mr Stefan Olszowski, a powerful opponent of Mr Kania in the Politburo, took over this responsibility in the tense first week of December (when Warsaw Pact troops were mobilized on Poland's frontiers) the media have been firmly muzzled again.

The people most directly involved are those least interested in avoiding confrontation. These are hardliners like Mr Olszowski on the side of the regime and, on the union side, the printers; about 50,000 of the country's 60,000 printers are members of Solidarity.

Their militancy has been nourished by years of reading uncensored first proofs. They are now threatening to leave blank spaces wherever the censor has been at work, a tactic used to great effect by their forebears under the Tsar.

Then there is the knotty question of the spate of publications "without the censorship" (as the opposition carefully describes them). This includes Solidarity newspapers, bulletins, brochures and circulars which are duplicated, mimeographed, or increasingly, run off on offset printing machines donated by Western trade unions. Solidarity has even established its own national news agency.

Journals like *Robotnik* (*The Worker*), produced by opposition intellectuals and circulated

conspiratorially among the workers until August, have now come under the aegis of the union.

It is a curious experience for someone from Fleet Street to find trade unionists working day and night to introduce the latest labour-saving technology. In their Lodz agreement the students gained freedom from censorship for a wide range of academic publications. And the peasants in Rzeszow were promised new school history textbooks which, as their manifesto simply put it, "would tell the truth".

The fact that the rural strikers included this among their demands shows once again that interest in the issue is by no means confined to the intelligentsia.

But if a new censorship law does finally reach the statute book it will not solve the problem of access for the independent unions to the state-controlled mass media, and that of their own alternative media.

Mr Jan Jozef Szczepanski, recently elected secretary of the Writers' Union, points to a further difficulty. Under the present law unofficial publishers like the Nowa house, which recently exhibited at the British Book Fair, can not be prosecuted. They can only be persecuted.

It is possible that the new law, by giving a clear legal definition of the unpublishable, would leave them open to prosecution.

'Doves' losing El Salvador fight

From David Cross
Washington, March 5

The doves in Congress appear to be losing their vigor, but limited battle to restrict increased American military aid to El Salvador.

Senator Alan Cranston, the Democratic Whip in the Upper House, has conceded that continuing criticism by liberal Democrats in both houses of Congress of the Administration's latest plan to send an extra 20 American military advisers and \$25m (£12m) worth of aid to the Government in San Salvador will probably not deter President Reagan and Mr Alexander Haig, the Secretary of State.

Nevertheless a small, vocal group of about 40 liberal Democrats in the House of Representatives are persisting with their efforts to prevent Washington from making the conflict in the tiny Central American republic a test of wills between the two superpowers. Mr Benjamin Rosenthal, a Democratic Congressman from New York, said that such a test was "mistaken and provocative."

Mr Richard Ottinger, another member of the House of Representatives of New York, is trying to force the Administration to seek the approval of Congress before the extra military aid can be sent to the Government of El Salvador.

Yesterday he introduced a draft resolution seeking to require the President in compliance with the War Powers Act, which was introduced in 1973 to prevent another Vietnam.

To allow the President to commit military personnel to El Salvador while ignoring the democratic process, Mr Ottinger said.

The State Department, however, contends that the latest aid for El Salvador falls outside the scope of the War Powers Act. It argues that the 20 extra military personnel are instructors rather than advisers.

Their job is to teach people how to use equipment not how to fight a war, a State Department official has explained.

Most members of Congress, including moderate Democrats, appear to agree with the Administration's rationale for sending extra military aid to El Salvador.

The United States had to convince the Soviet Union and Cuba that it did not intend "to let them influence the course of events inordinately" in Central America, Senator John Tower, chairman of the Senate Armed services committee explained today.

Outside Congress, opposition by the general public to American intervention in El Salvador has been equally limited.

Meanwhile, Mr Haig has told reporters that the future commitment of American aid to El Salvador will depend "largely on the willingness of Cuba and the Soviet Union to continue to intervene illegally in the events



President Duarte denouncing the extreme right wing.

in this hemisphere". He reiterated his earlier warning that communist behaviour on America's doorstep was "no longer acceptable or tolerable."

German concern: Herr Hans Dietrich Genscher, the West German Foreign Minister, will advocate a dialogue between the two sides in the El Salvador conflict while in Washington next week, officials said today (Patricia Clough writes from Bonn).

At the same time the two big West German political parties are continuing their efforts to get the two sides together for talks.

The German aims, prompted by fear of an East-West conflict in Latin America, diverge from the United States policy of firmly backing the centre-right junta of President Jose Napoleon Duarte, High-ranking

Five shots flush out America

From Michael Leapman
San Salvador, March 5

The curious events of the last two days here have served to crystallize the positions of some of the main participants in this small country's convoluted diplomacy.

The Americans have now come down unequivocally in favour of the moderate reformism of President José Napoleon Duarte and against the excesses of the extreme right. That there should have been any doubt where the Americans stood derived from the impression given by members of President Reagan's Administration that defeating global communism was an object so important for the United States that almost anything would be countenanced in its name.

Señor Roberto d'Aubuisson, the former national guard major who began the chain of events on Tuesday, says that he thought he had received that message. He called a "secret" press conference to announce that things looked favourable for a far-right coup and to indicate that he expected American support for it.

The excessively conspiratorial arrangements for the conference would have been laughable — a kind of "Dads' insurgency" — were it not that the extreme right does appear to be genuinely vicious and to have support from rich businessmen and army officers.

President Duarte took him seriously enough to denounce him and all plotters at his press conference yesterday and to declare that he had issued a warrant for his arrest. As he was making this announcement the event occurred which flushed the Americans from their public indecision.

Men in an open lorry, cruising past the American embassy, fired five shots, doing hardly any damage and injuring nobody. On what seemed the flimsiest of evidence the

ambassador, Mr Frederick Chapin, blamed followers of Señor d'Aubuisson. He made a firm denunciation of any coup plans and a statement of support for a Señor Duarte.

Parallel with this, there has been talk this week of a "dialogue" between the Duarte Government and the left-wing rebels. Such an idea is anathema to the far right.

Americans are staying silent on the question of dialogue. They embrace the idea would conflict with Mr Reagan's philosophy of confronting communism rather than coming to terms with it.

Yet if the process were eventually to result in a popular but clearly not a communist dominated government — an outcome a long way into the future — the Americans might live with it.

Another Beirut link is broken by snipers

From Robert Fisk
Beirut, March 5

A lone motorist risked the Sodeco crossing point from east to west Beirut this afternoon. A middle-aged man, he drove his black limousine along the old dual carriageway, swerving wildly between weed-covered pavements and bullet-pocked lamp posts in a haze of brown dust.

There was a crackle of rifle fire as Beirut's traditionally anonymous snipers tried vainly to smash the driver's Icarus-like self-confidence. But he made it to the cover of Becharra el-Khouury Street in seven seconds flat.

Until three weeks ago, the Sodeco shopping centre, a damaged set of offices boasting a few, or slightly dazed, boutiques, marked the safest transit point between Muslim and Christian Beirut, a thoroughfare whose dingy and scarred apartment blocks were given some semblance of order by the neatly sand-bagged check point of the Lebanese Army at the eastern end of the street.

The sandbags were still there this afternoon, surrounded by two tiny Lebanese flags — but the soldiers were nowhere to be seen.

And nor, of course, were the snipers. Their identity has become something of a talking point in Beirut since the Sodeco road was declared unsafe by the local gendarmerie. For the closure of the street has extended Beirut's sectarian isolation a further mile and a half across the centre of the city.

The longest but fastest route from east to west — an ugly four-lane flyover near the port — has been closed for more than a year because gunmen sitting inside the ruined factories and shops have shot at every motorist trying to use the road. Now the only main road still opens traverses the old civil war frontline at the Classical Museum, currently the scene of spectacular three-mile, all-day traffic jams.

The Lebanese Government, who earnestly and daily debate the problems of Beirut's miniature war, seem to have no idea who is shooting at the innocent travellers along the Sodeco road nor why they should attack civilians in so savage a manner.

Among the eight deaths to be recorded there in the past three weeks is that of a seven-year-old girl who was hit by a sniper's bullet while travelling in her father's car past the end of the street, and two young men who were picked off last week as they walked past the local offices of the Finance Ministry's revenue department in Becharra el-Khouury.

The Syrian Army, which notionally controls most of west

Iran unlikely to accept ceasefire in Gulf war

From Tony Allaway
Tehran, March 5

President Bani-Sadr today indicated that Iran would probably not accept the latest proposals for a ceasefire in the five-month Gulf war with Iraq.

He told a large public rally here that the Iranian Supreme Defence Council was still studying the proposals. Mr Bani-Sadr said that the mission, which is currently shuttling between Tehran, Baghdad and Saudi Arabia, but Mr Bani-Sadr continued to insist on an immediate Iraqi withdrawal from Iran, simultaneous with any ceasefire.

According to proposals submitted by the Islamic mission to the two sides, a ceasefire would begin on March 12 with a withdrawal of Iraqi troops beginning on March 13 and lasting four weeks.

The continuing hard line of Mr Bani-Sadr surprised those close to the mission negotiators, representing seven Muslim countries and the PLO. They have said in private that officials — including the President — connected with Iran's war effort had indicated a willingness for moderation.

Mr Bani-Sadr today blamed his enemies for spreading the rumour "that I am a supporter of compromise with the enemy... I undertake in your presence that we will resist in this way until peace is made."

He said that while the President might want a speedy end to the war to concentrate on the internal political front, his room to manoeuvre was narrow in the negotiations from Iran's powerful Islamic fundamentalists.

An indication of this came today with a strong statement from Ayatollah Hossein Montazeri, currently regarded as the most likely successor to Ayatollah Khomeini as the country's religious leader.

In a letter to the Supreme Defence Council, broadcast by the state radio, the Ayatollah warned that Iran would accept nothing less than the overthrow of President Saddam Hussein of Iraq, and his trial and punishment.

Savage violence: Scores of injuries were reported today as supporters of Mr Bani-Sadr turned the tables on gangs of Muslim fundamentalists who had tried to disrupt a mass rally at Tehran University.

In some of the most savage violence seen since last summer, the "collaborators" or supporters of the "Party of God" were mercilessly beaten by crowds who had come to hear a speech by the President.

About 100,000 people had gathered for the rally.

Leading article, page 13

A lone motorist risked the Sodeco crossing point from east to west Beirut this afternoon. A middle-aged man, he drove his black limousine along the old dual carriageway, swerving wildly between weed-covered pavements and bullet-pocked lamp posts in a haze of brown dust.

There was a crackle of rifle fire as Beirut's traditionally anonymous snipers tried vainly to smash the driver's Icarus-like self-confidence. But he made it to the cover of Becharra el-Khouury Street in seven seconds flat.

Until three weeks ago, the Sodeco shopping centre, a damaged set of offices boasting a few, or slightly dazed, boutiques, marked the safest transit point between Muslim and Christian Beirut, a thoroughfare whose dingy and scarred apartment blocks were given some semblance of order by the neatly sand-bagged check point of the Lebanese Army at the eastern end of the street.

The sandbags were still there this afternoon, surrounded by two tiny Lebanese flags — but the soldiers were nowhere to be seen.

And nor, of course, were the snipers. Their identity has become something of a talking point in Beirut since the Sodeco road was declared unsafe by the local gendarmerie. For the closure of the street has extended Beirut's sectarian isolation a further mile and a half across the centre of the city.

The longest but fastest route from east to west — an ugly four-lane flyover near the port — has been closed for more than a year because gunmen sitting inside the ruined factories and shops have shot at every motorist trying to use the road. Now the only main road still opens traverses the old civil war frontline at the Classical Museum, currently the scene of spectacular three-mile, all-day traffic jams.

The Lebanese Government, who earnestly and daily debate the problems of Beirut's miniature war, seem to have no idea who is shooting at the innocent travellers along the Sodeco road nor why they should attack civilians in so savage a manner.

Among the eight deaths to be recorded there in the past three weeks is that of a seven-year-old girl who was hit by a sniper's bullet while travelling in her father's car past the end of the street, and two young men who were picked off last week as they walked past the local offices of the Finance Ministry's revenue department in Becharra el-Khouury.

The Syrian Army, which notionally controls most of west

Beirut, blames the Christian Maronite militias — in particular, the Phalangists of Mr Bashir Gemayel — for the shooting, claiming that the militias are merely continuing their attempts to take themselves from the rest of Lebanon and divide the country.

Phalangist snipers have certainly been operating around the port for many months and their after-dark battles with Syrian-officered guerrillas of the Palestine Liberation Army near the harbour, a series of nightly thumps and bangs that rumble over the city — have long been a part of Beirut's more routine violence.

The militias — or the "Lebanese Forces" as they prefer to call themselves — say that Palestinian and Syrian snipers are responsible for the shooting at Sodeco. The official Phalangist spokesman suggested rather darkly today that the Syrians wanted the violence to continue in Beirut so that they could find good reason to keep their army in Lebanon.

Again, that President Sarkis of Lebanon is in most President Assad of Syria next week, the Syrians had deliberately escalated the fighting between east and west Beirut.

Presiding over the Phalangists, President Assad would be able to decapitate the Sodeco sniping without suppressing the battles elsewhere in the capital and Mr Sarkis would be able to declare that the situation had improved while his Syrian counterpart would still find good reason to keep his troops in the city.

In Lebanon, violence becomes unconsciously conspiratorial, with the authorities love their trip — they usually do in Beirut, despite all their brave attempts to keep control. The fact remains that since the civil war ended, no one has ever positively identified the sniper who line the city's transit routes.

The only consistent thing about the whole business has been the persistence of Beirut's more fondly-travelled in driving in the past three weeks along the city's east-west carriageway.

A motor cyclist was about to try the west-most journey past Sodeco this afternoon and those of us in Becharra el-Khouury street saw him, head down and four on the accelerator, start his journey towards the infamous shopping centre. But in one instant he found out what happened on his last journey.

German loan for India

Delhi, March 5. — West Germany today pledged India funds to finance a deep-sea research vessel. An agreement providing for a loan and grant amounting to £15m has been signed.

OVERSEAS

South Korea assured of British support for its defence policies

From Jacqueline Redin, Seoul, March 5

The British Government and President Chun Doo-hwan of South Korea held very similar views on the defence of non-communist countries against the Soviet Union and North Korea, Mr Peter Blaker, Minister of State at the Foreign Office, told a press conference in Seoul today.

Mr Blaker was in Seoul to represent the British Government at the recent inauguration of President Chun.

He told the press that he had delivered a letter from Mrs Margaret Thatcher, the British Prime Minister, to the South Korean President and that he and General Chun had discussed international affairs and found British and Korean government attitudes very similar.

It was increasingly evident, he went on, that the countries of the free world were dependent on one another so that political and economic cooperation between Britain and South Korea was important.

Non-communist countries had to maintain their defence, build up strong economies, cooperate economically and politically and make it clear to the Soviet Union that aggression did not pay.

Mr Blaker confirmed that Britain would certainly be prepared to sell military equipment to South Korea and that the Hawk trainer, ground attack aircraft and the Rapier anti-air defence missile would be particularly suitable. He also guaranteed that Britain would not export any military equipment to North Korea.

Asked if the British Government was satisfied that democracy had been restored in South Korea, Mr Blaker said that the Government welcomed the fact that elements had been the leading incident, and that more than 3,000 people had recently been granted presidential clemency, but beyond that internal matters were managed by a matter for Korea.

The South Korean Government today announced that a general election would be held on March 25. The first hint that the election will not be exactly open to all corners came with the news that a deposit for political party nominees will be nearly £5,000 and for independent candidates about £10,000. These deposits will be forfeited to the Government if a candidate fails to win at least one third of the votes. Such measures will certainly reduce the number of candidates.

As the election campaign gets under way, the Democratic Justice Party, the clear favourite, will be the party to watch. With President Chun as its leader, the party cannot fail to benefit from the continual publicity and increasing adulation he has been receiving.

The President's photograph has appeared almost every day on the front pages of the newspapers, and many columns and special supplements have been devoted to him. In a recent piece presented at a cultural programme of the inauguration ceremony, he was referred to as the "wise and trusted helmsman"—an expression China watchers also associated with Chairman Mao Tse-tung.

UN staff in Uganda threatened with death

From Charles Harrison, Nairobi, March 5

United Nations employees in Uganda have been threatened with murder or kidnapping by one of several underground groups operating against the Government of President Milton Obote. UN officials said today.

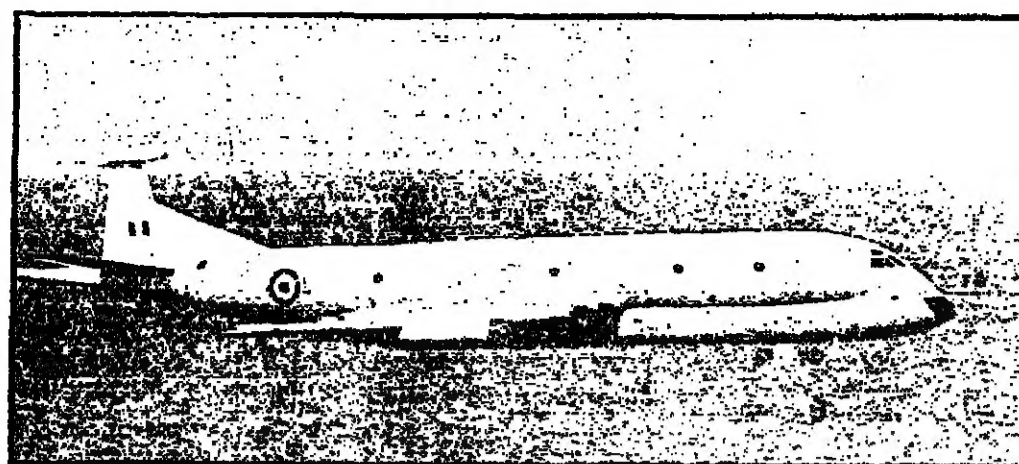
United Nations offices in Kampala were closed yesterday while officials sought assurances from the Government that protection would be provided for the Organization's 100 employees in Uganda. Demands have been made in letters and telephone calls to the United Nations office that the organization should cease supporting the Obote Government.

One of the underground groups, calling itself the Movement for the Support of People's Rights, claimed today that it had killed 19 Tanzanian soldiers and 31 Ugandan troops in two ambushes on a main road north of Kampala. The movement says its aim is to overthrow the Obote Government because the December election was rigged.

Another underground group, the Uganda Freedom Movement, claims to have organized the defection of several hundred Ugandan troops.

An assistant minister acknowledged the existence of the underground movements, but urged young people not to join.

President Obote insists that the rebels have no significant following, and are a small group of dissidents. But diplomatic sources say the underground of unrest and dissent is widespread.



An RAF Nimrod patrolling British waters in order to photograph and send back information to the Ministry of Information.

When a minesweeper or a reconnaissance aircraft sees a fishing boat in British waters, the details are sent back to the operations room of the Ministry of Agriculture. The room is dominated by a large wall map which shows all 270,000 square miles of sea which fall within the 200-mile national maritime zone which is attributed to Britain under international law.

Boats of different nationalities are identified on the map by stickers of different colours. The information is updated daily and stored in a card index. The index offers ministers a complete record of sightings since 200-mile limits were established five years ago.

It is now being superseded by a computer bank from which the Government can extract a master chart showing the pattern of fishing by foreign vessels in British waters. The information is costly to acquire, but of cardinal importance in the present round of bargaining in Brussels about an EEC common fisheries policy.

When ministers resume their debate they will concentrate on a compromise by which British waters will be protected while boats from abroad are allowed to fish in those parts of the British maritime zone where they have congregated in the past.

The argument about "historic rights" is one of the long and stormy process towards adopting a Community policy for sharing and policing the catching of fish in the waters of member states.

The present half-way policy will expire next year. The European Commission operates on the basis that there are no national waters, but only Community waters. The Community must find a compromise between the aims of those British fishermen who want a wide exclusive zone round British coasts and those in other countries who want unrestricted access to those coasts.

Compromise is aimed at restricting catching methods in some waters while keeping foreign boats out of all areas except those on which they have depended for a living in the past. One serious obstacle is to agree about precisely who has been accustomed to fish, and where they have done it.

The information collected by the British ministry's operations room gives this country's negotiators a clearer picture than anyone else of the extent and position of traditional fishing.

If another Community government claims that its fishermen have worked regularly in a particular section of British waters, the operations room will be able to indicate whether the claim is true.

Surveillance is done by ships and aircraft working together. An RAF Nimrod, which spots a boat, will circle at about 200 knots and make several passes at about 400 feet while a member of the crew photographs the boat with a hand-held camera.

Detailed photography is difficult in such conditions, but it is often possible for the operations room staff in Westminster

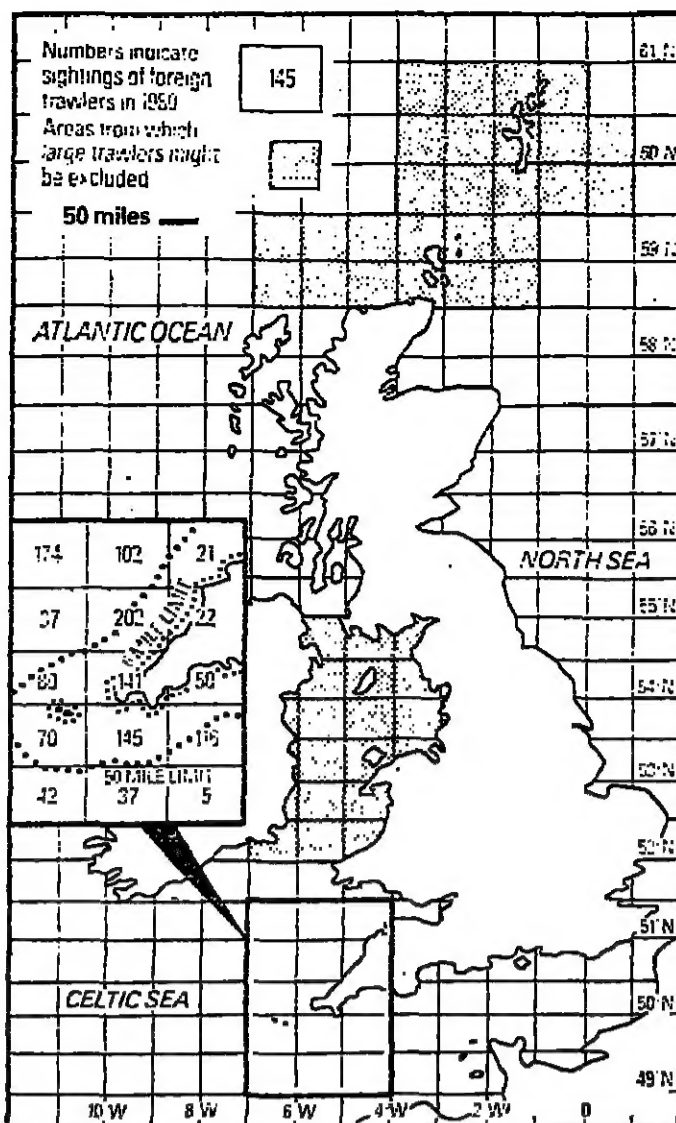
to pick out the names of boats from photographs. If the boat appears to be in the wrong place, or to be using illegal gear, a naval vessel may be sent to it. All information given to the unarmoured boarding parties, including remarks made by the fishermen on fishing boats, is sent back to the operations room. One such report, transmitted last month, read:

"Skipper said best fishing this area for a year. Where are the British boats?" The answer was that they were in port as their owners were protesting at being undercut by cheap catches from abroad.

Another naval vessel was sent to investigate a trawler which appeared to be fishing in an area where catches are banned. As it closed, all lights on the trawler were turned off. Repeated radio messages to the trawler went unanswered for 25 minutes. Eventually the naval crew picked out the name of the trawler with a searchlight. It was owned by a British company and based in a British port.

Widespread publicity about breaches of fishing rules by British based abroad implies that British fishermen fish by the book. But the operations room staff know that British crews, harassed by dodging Icelandic surveillance in successive cod wars, are far from innocent. It is the independent boat-owner from the Continent who is more likely to be intimidated by the large military aircraft which keeps flying low over his boat.

Hugh Clayton



Shaded areas show waters from which large trawlers would be banned under a compromise put forward at last month's unsuccessful EEC fisheries meeting. Britain still hopes to secure a ban in much of the 50-mile limit round its northern coasts.

The inset shows part of a computerized master chart on which the Government has plotted the positions of all foreign trawlers spotted in British waters by fishermen, the Royal Navy, and the RAF last year.

There is a heavy concentration of boats in several areas, including south-west England, while other waters are almost never fished.

The chart will ensure that British ministers are better equipped than their counterparts from the rest of the Community to assess claims from abroad for rights to fish near this country's coasts. Such claims are based on the number of past voyages near Britain by foreign vessels.

Sources: Inset, Ministry of Agriculture; Map, Fishing News.

In brief

Aid released for Atlanta blacks

Washington, March 5.—President Reagan has decided to release about \$4,500m in federal aid for programmes to help blacks in Atlanta, where 19 black children have recently been murdered.

Mr James Brady, the White House press secretary, said the money would be used for scholarships and youth centres for underprivileged black children in the southern city.

Tanzania faces famine

Dar es Salaam, March 5.—President Nyerere of Tanzania has said that thousands of his countrymen might die of hunger next year because of a lack of food due to adverse weather. The four lake regions—Mwanza, Mara, Qinyanga and Kagera—faced a very bad food situation.

Englishmen jailed

New York, March 5.—Two Englishmen have been sentenced to between two and four years in jail each for stealing diamonds, worth nearly £80,000, from two Manhattan jewelry stores. They were Desmond Robertson, aged 49, of Middlesex, and Brian Kurner, aged 50, of London.

Russians condemned

Geneva, March 5.—The Soviet Union has been condemned by the International Labor Organization for not permitting free trade unions to function. The Russians told the organization that various individuals, who were now in prison or in clinics in the Soviet Union, were not authentic trade unionists.

Sailors suffocated

Tokyo, March 5.—All nine sailors who were killed on a Soviet nuclear submarine off the southern Japanese island of Okinawa last August were suffocated by the ship's fire-fighting system, Soviet sources said here.

More funds needed

Bangkok, March 5.—International relief agencies at a new York meeting on Cambodia will state that \$57.7m is still needed to prevent Kampuchea sliding back into disaster this year.

Swap toll put at 73

Windhoek, March 5.—South African security forces killed 73 Swapo guerrillas in the northern part of Namibia during February, according to an army statement.

Colombia amnesty

Bogota, March 5.—The Colombian Congress has approved an amnesty Bill for left-wing guerrillas in a move to end violence in the country.

28 flown from hijack ordeal in Kabul

From Hasan Akhtar, Islamabad, March 5

A group of 28 passengers, mainly women and children, who were released at Kabul airport yesterday by the hijackers of a Pakistani aircraft, were flown to Peshawar this afternoon.

They were told by the Ministry of Defence to speak cautiously about their four-day ordeal because the remaining 120 passengers and crew were still being held in the hijacked aircraft.

According to witnesses in Peshawar, the freed women and children appeared to be highly emotional. Some cried hysterically and others knelt down and prayed in thanksgiving for their safe deliverance from the hijackers who forced the Pakistan International Airlines aircraft, which was on a domestic flight from Karachi to Peshawar, to divert to Kabul on Monday.

Lieutenant-General Fazle Haq, the Governor of the North-West Frontier Province, was present at the airport as the representative of President Zia ul-Haq, who is due to return later tonight from his Islamic peace mission to the Gulf. President mission to the Gulf.

Canberra to restrict Russians

Canberra, March 5.—The Australian Government today tightened its restrictions on visitors from the Soviet Union. From now on, all Soviet visitors will have to submit a detailed itinerary before arrival and the Immigration Department must be notified if changes are proposed.

A Government statement noted that the restrictions applying to Australians visiting the Soviet Union were considerably more stringent than the new arrangements applying to Soviet visitors.

Mr Malcolm Fraser, the Prime Minister, told Parliament last night that Australian-Soviet relations would not return to normal until Soviet troops were withdrawn from Afghanistan.

The Australian restrictions came after Mr Fraser had criticized Mr Nikolai Sudarikov, the Soviet Ambassador, for his remarks to reporters that Australia's foreign policy was "tuning the country into a nuclear target."

"The ambassador's remarks were foolish," Mr Fraser told Parliament.—Agence France Presse, and UPI.

Search for compromise on Belize

By David Spanier, Diplomatic Correspondent

Negotiations between Britain and Guatemala on the future of Belize opened in London yesterday. The delegates agreed that nothing would be said about their discussions until they were over.

The central question is whether a compromise, wrapped up in an economic development programme for Guatemala, can be found between Guatemala's territorial claims on Belize and Belize's rejection, supported by Britain, of any cession of territory.

In a statement yesterday, Señor Castillo, Belize's Guatemalan Foreign Minister, looked forward to "a lasting, just, honourable and politically viable solution."

The positive tone of this statement supports the indications of progress evident in the recent talks at official level in Rights record: Guatemala had one of the worst human rights records in the western hemisphere last year, according to a study released by the Council on Hemispheric Relations.

existed in Mozambique since the country became independent in 1975, had passed on information to the South African intelligence services about ANC activities in Mozambique. It was probable, the communiqué said, that information provided by the Americans had helped the South Africans to pinpoint the ANC houses in which 12 people were killed during the raid.

Western diplomats in Maputo and Pretoria said today that the Mozambican action against the American diplomats confirmed their fears that last January's South African raid would force Mozambique to turn away from the West and establish closer ties with Soviet-bloc countries, even though Mozambique was anxious to attract development aid and investment from the United States.

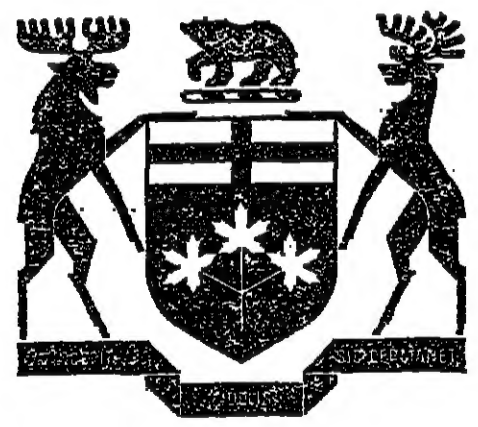
American sources in Pretoria said the expulsions followed an abortive attempt by Cuban agents to recruit one of the American diplomats as a spy.

Indications are that Ontario's Tories will recover their absolute majority

Backers of Mr Trudeau



Mr William Davis, Premier of Ontario



"Faithful to the end": Ontario's emblem

Electing Conservative government has long since become an ingrained habit with the people of Ontario, Canada's most populous and most economically powerful province. And it looks as though the habit will be duly perpetuated in the provincial legislature after the March 19 election.

In fact, indications are that the Tories under their Premier, Mr William Davis, will recover the absolute majority which eluded them in the last two elections, in 1975 and 1977.

The standings in the 125-seat legislature at the dissolution were: Conservatives, 58 seats, Liberals 34, NDP 33.

A recent opinion poll gave them 38 per cent of the popular vote against 19 per cent for the Liberals, and 13 per cent for the socialist New Democratic Party (NDP).

Excluding undecided voters and non-voters, and those who did not respond to the pollsters' questions, the Tories have 54 per cent—enough for a comfortable majority. The Liberals have 27 per cent and the NDP, 18 per cent.

In any event, barring an unlikely eruption of anti-government voter sentiment on the scale of Mount St Helens between now and March 19, the Conservatives will maintain the hold on office which they have enjoyed uninterrupted since 1943.

The campaign has been relatively tame, with neither Mr Stuart Smith, the Liberal leader, nor Mr Michael Cassidy, the NDP leader, lighting any fires of the kind that would be necessary to sweep the well-entrenched Tories out of office.

economic times, and "comfortable" under a Premier whom many regard as a father figure. No overriding issue has emerged, although the opposition parties are doing their best to make campaign capital out of the growing number of plant closures, and increased unemployment associated with the recession.

Mr Smith, a 42-year-old psychiatrist fighting his first campaign as Liberal leader, has even gone so far as to announce that he will confine himself to economic issues.

To back up his theme of economic mismanagement, he asserts that Ontario has fallen to last place among Canada's 10 provinces in terms of economic growth.

Whether this economic-woes-and-nothing-else strategy is having the desired impact is doubtful. For one thing it has enabled Mr Davis, a former lawyer with 22 years of experience on the campaign trail, half of them as Premier, to sell Mr Smith with the nickname Dr Negative (in some versions Dr No).

It has not exactly helped the relative neophyte get his campaign off the ground.

Mr Cassidy, aged 43, a former newspaper man also fighting his first campaign as leader, repeatedly talks about the 68 plant shutdowns in Ontario last year, affecting 30,000 workers.

Mr Davis patiently counters with the argument that while the Ontario economy does have its weak spots, it is performing well in comparison with competing industrialized regions just across the border in the United States.

of industrial leadership and development. This is part of a wider Tory strategy to emphasize the economic strength of the province.

The great issues dominating Canadian politics these days—the federal Government's plan to bring home the constitution from Britain, and the battle between Alberta and the federal Government over energy—have scarcely caused a ripple in the Ontario campaign.

Mr Davis, very astutely from a narrow political standpoint, has broken with all but one of the other nine provincial premiers to get behind Mr Pierre Trudeau, the Liberal Prime Minister, on the constitutional issue.

Ontario, though it has a large French-speaking minority, is exempt from the compulsory bilingualism provisions of the proposed new constitution.

Though it cannot be proven, some political observers suspect there is more than a casual connexion between the two circumstances.

Ontario is also the province which gains most from Mr Trudeau's policy of keeping the price of Canadian oil—most of which is produced in Alberta—sheltered from world market forces and artificially low. The policy enormously helps Ontario, Canada's industrial heartland, by making its manufactured products more competitive at home and abroad.

Neither of the opposition parties is challenging Mr Davis very loudly on the energy and linguistic issues, because they know his stand is popular with the overwhelming majority of the voters.

All in all, Ontario gives the appearance of being too well-heeled and too complacent to be in the mood for any political convulsions this time round.

John Best

10 drug traffickers await their fate on Changi's death row

Mr Ong Ah Chuan was taken from his Changi prison cell in the gaunt, grey, February dawn and hanged for trafficking in heroin. On death row 10 others await a similar fate, including two women.

Mr Ong was the seventh person to die for trafficking in more than 10g of pure heroin since Singapore made the death penalty mandatory for such an offence eight years ago. Like others before him, he had appealed to the Privy Council in London and to Mr Benjamin Sheares, President of the republic.

Like those of the others, Mr Ong's appeals failed. Although there is no death penalty in Britain the privy council will intervene in Singapore only if it feels there has been a miscarriage or abuse of justice. Mr Sheares has the power to grant a pardon.

Mr Ong, aged 23 at the time, was found in possession of 70g of heroin four years ago when the heroin epidemic in Singapore was at its height. Abusers of hard drugs can expect rigorous treatment. Traffickers can expect little mercy.

Looking at the figures for heroin addicts and users, one can see why. The heroin problem hit Singapore with hurricane force. In 1972 there were four cases of heroin abuse and addiction. Four years later there were between 10,000 and 12,000 in one of the world's most densely populated countries which is the size of the Isle of Wight.

There were a number of reasons for the explosion. The ones familiar in the West: the desire to try something new; the feeling that if you have not tried the experience you are somehow outside the main stream. Singapore also had some reasons of its own: the high pressure to succeed on students; peer group pressure; and, experts now admit, government policy towards heroin users.

In the early 1970s the main method of treatment for heroin addiction was clinical treatment with gradually reducing dosages of the drug until the intake was reduced to zero. Alternatively, methadone substitution was used.

After a six-month course with government-supplied drugs the former user was back on the street without money. Within a short space of time the drug pushers were offering the former addicts a "percentage"

in heroin to do their marketing for them.

The pressure to introduce more young people to the habit became a question of providing for the addict's own renewed needs. The use of heroin spread like a monsoon flash-flood through the republic.

Drug users were found in the Army. The police academy found that 13 of its recruits were heroin users. In 1974 five young girls were found taking heroin. In succeeding years the number ran into hundreds. The Government launched Operation Ferrer to identify and isolate heroin users and pushers and take them into the drug rehabilitation centre for treatment.

As one expert said: "Normally if you are ill you tend to isolate yourself. The heroin users seek out company. They are contagious."

But in a society as small and compact as that in Singapore the stigma of an arrest and conviction for the possession of drugs could have a devastating effect on the future of a young person, so the Government moved to make the handling of such drug users as anonymous as possible.

Suspects are given urine tests to see if they are drug users. One sample is held by the investigating authorities and the other by the suspect. The result may be appealed.

If the urine test proves positive the user goes for compulsory treatment, which now takes the form of an initial period of "cold turkey": recuperation, rehabilitation and then a period of strenuous physical exercise under military discipline.

There is now an extensive after-care operation run by about one thousand unpaid volunteers. Many of them are former inmates of the rehabilitation centre.

The "cold turkey" method, harsh though it is, has resulted in far fewer relapses by former heroin users and the epidemic of the 1970s seems to have been brought well under control with about a thousand hardcore addicts left.

Uniformed groups such as Scouts and Girl Guides go through training courses in the dangers of drug use to earn anti-drug badges and local community association involvement ensures that Singaporean society is effectively inoculated with the message.

Even two thirds of the Singapore Anti-Narcotics Association budget is raised through subscription. It will not be for lack of trying if Singapore, ultimately, "kick the habit."

fts

Cuba blamed for envoys' expulsion

Washington, March 5.—The State Department accused Cuba today of creating a diplomatic incident which led to the expulsion of six Americans from Mozambique.

The Mozambique Foreign Ministry yesterday ordered four American diplomats and the wives of two of them to leave the country within 48 hours, accusing them of "espionage, subversion and interference in Mozambique's affairs."

Mr Joseph Reap, the State Department spokesman, said: "It is not our normal practice to comment on these matters. However, I would like to draw attention to some extraordinary circumstances in the case."

"We are aware of the visit to Maputo of a very senior member of the Cuban counter-intelligence organization, Cuban officials staged a blatant confrontation with our embassy only hours before the Foreign Minister informed the members of our diplomatic mission that they were requested to leave the country in 48 hours."

The State Department was

also aware that a group of Americans opposed to intelligence gathering were residing in Mozambique during the period. Officials said they were unable at present to give further details of the Cuban-American "confrontation" which, they believed had led to the expulsion order.

The four embassy staff members were ordered not for alleged espionage activities, while the two wives were expelled for "carrying out support for their husbands' work."

US-African connexion: Mozambique's decision to expel the American diplomats who were allegedly members of a Central Intelligence Agency spy network appears to be directly linked to last January's raid by South African troops against houses belonging to the African National Congress (ANC) outside Maputo (Nikolaus Ashford writes from Johannesburg).

A Mozambican communiqué claimed that an American spy network, which had allegedly

Government remains firm against pay demand by Civil Service: increase must be within cash limits

House of Lords. Lord Soames, Lord President of the Council and Minister for the Civil Service, in a statement about Monday's proposed strike by civil servants, said it was clear that the Government cannot increase its offer of 7 per cent. Many in the private sector would regard it as a good offer. He said:

Lord Soames said: I want to take this opportunity to explain to the House and to the country the present situation regarding the threatened Civil Service strike on Monday. The Government has offered to non-industrial civil servants an increase of 7 per cent from April 1 together with a clear statement of our desire and intention to establish for the future a new ordered and agreed system for determining Civil Service pay.

The 1981-82 all the public services are operating within cash limits set on the basis of factors of 6 per cent for pay and 11 per cent for prices. For the Civil Service, where the Government is the direct paymaster, it will be possible to exceed these limits. It is evident from this that there is no question of discrimination against the Civil Service.

There are many people in private industry who would feel that such an offer at this time could be classed as a good one. I know that the general economic climate and the relative job security that civil servants enjoy.

I know that civil servants are concerned as much about future arrangements for determining Civil Service pay as they are about the present pay rate.

In August last year I explained to the House that, given the overriding need in the broad national interest for a pay rise to be very restricted, the emphasis in 1981 would have to be on the future.

The Government's policy is to ensure that the pay system is fair and equitable. It is not a question of discrimination against the Civil Service.

A further cause for concern is the fact that the pay system is now more than 25 years old. Over the years it has become

top heavy and cumbersome in its operation. It is no longer commensurate with the needs of the country. It is a system which is not only inefficient but also costly. It is a system which is not only inefficient but also costly. It is a system which is not only inefficient but also costly.

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operative for the 1982 Civil Service pay settlement. Lord Rochester (Lib.) in a reply to members of the Civil Service should be contemplating strike action in view of their responsibility for the pay settlement.

On the main issue of the overall increase in pay, we give the Government our support and join in their plea to the union leaders even at this late stage to withdraw the recommendation to their members. We should be working out some new arrangement for pay determination within the Civil Service.

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Home Office officials were arranging for a survey of the incidence of alleged attacks by members of one racial group on another, conducted in a number of areas. Mr. William Whitelaw, Home Secretary, stated at question time.

Officials would also obtain the views of the police, local authorities and the ethnic minority communities.

During the exchanges Opposition MPs led by Mr. Roy Hattersley, chief spokesman on home affairs, welcomed the decision announced on Wednesday night to ban all marches in the Metropolitan area for three weeks.

Mr. Christopher Price (Lewisham, West, Lab.) said the decision to ban Saturday's proposed march by the National Front at Lewisham was a welcome decision which everyone in the borough of Lewisham would support.

He went on: Is the Home Secretary satisfied with the decision of the Commissioner of the Metropolitan Police to put in charge of the investigation in the New Cross area, which was the cause of the previous march, the policeman who investigated the Confront case and turned down the march?

Will he discuss that matter with the Commissioner? He asked the Commissioner to reverse his decision?

Mr. Whitelaw: (Pernith and the Border, C.) I regret the necessity for the ban on marches until the end of this month in London.

There are difficulties in the banning of marches. However, there are difficulties in the banning of marches. However, there are difficulties in the banning of marches.

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I have every confidence in the way this is being pursued. I am entitled to say on the basis of what I have heard and seen that they are conducting the investigation in this unhappy incident with the utmost vigour and determination.

They have no fewer than 50 officers working on this inquiry. No one can say that is not a strong effort. They have taken over 500 statements. No one can complain about that.

I hope all those who are upset by this incident, and understand why, will appreciate that the police are doing their best to find out the truth and to bring the culprits to justice.

Mr. John Hunt (Bromley, Ravensbourne, C.) Will the inquiry also cover the role of racist publications like *Combat* and the *Nasty Little Paper* called *Chiefs*, which purport to be the kind of racism and anti-Semitism which is disgusting our country?

Mr. Whitelaw: We shall look at publications of all sorts from wherever they come.

Mr. Sydney Bidwell (Ealing, Southall, Lab.) I thank Mr. Whitelaw for his answer. I am sure that the police are doing their best to find out the truth and to bring the culprits to justice.

Will he discuss that matter with the Commissioner? He asked the Commissioner to reverse his decision?

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Mr. Whitelaw: The Public Order Act lays down clearly that chief officers of police cannot apply to me for a ban unless they are clear that the march, if it takes place, may lead to grave public disorder. That must be a matter of decision and a matter of view on the ground. It cannot be a matter of clear evidence. That is the provision of the Act that will be rigidly adhered to.

There can be no question of chief officers of police applying for a ban, or of my granting one, on the basis of liking or not liking a particular organization which might march.

The test is entirely whether such a march would be likely to lead to grave public disorder. It will be the duty of the police to ensure that the march is peaceful and that it does not lead to grave public disorder.

Mr. Roy Hattersley, chief Opposition spokesman on home affairs (Birmingham, Spurbrook, Lab.) I bring him the support and congratulations of my constituents in the Metropolitan area.

The march which is thus prevented would have been a clear demonstration of the breakdown of public order, the behaviour of the young thugs in the march through Southwark on Monday, when they broke into shops, damaged shops, terrorized the white population and shouted the vilest slogans at the minority to try to provoke the police.

The Home Secretary has to be seen to be completely even-handed (Conservative cheer) or else he will simply add to the discontent of the white population and the organizations that Labour MPs find so objectionable.

Mr. Whitelaw: There are various features of the march on Monday

which distressed us all. It is only fair to say it distressed some of those who were the organizers of the march. It is important to say that it was very distressing, but even-handedness was crucial. I have been totally even-handed in my responsibility for the ban on all marches throughout the whole of the Metropolitan Police area for three weeks.

Notice some MPs appear to be like it. They cannot accuse me of not being even-handed because that applies to every march. Mr. Geoffrey Janner (Leicester, West, Lab.) The dislike of this organization is not confined to MPs on this side.

The House would wish to be the study that the Home Secretary is making, and would wish it to include the effect of marches on the police and on the public in cities not merely in London but Leicester, where a march is planned, and to consider whether it is possible to be changed to strengthen the powers of the Home Office, and of the police, in dealing with such a situation. It is important to say that we are a tolerant society. We in this House are determined to make sure we continue to be so.

Mr. Whitelaw: When we publish the report on public order, we will consider the whole question of how marches should be dealt with. There always appears to be a desire to consider the whole question of how marches should be dealt with. There always appears to be a desire to consider the whole question of how marches should be dealt with.

There are other ethnic minorities. I would mention the Jews, who are as much entitled, whatever colour, race or religion, to the same protection of our society. It is important to say that we are a tolerant society. We in this House are determined to make sure we continue to be so.

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Unions urged to discuss new body

House of Commons. Mr. Barney Hayhoe, Minister of State, Civil Service (Department of the Environment, Brentford and Isleworth, C.), repeated Lord Soames's statement in the Commons.

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The Crucible

Comedy

Irving Wardle

Largely recast since its first appearance at the Cottesloe last October, Bill Bryden's fine production transfers to the West End with increased authority. It originally struck me as a point of convergence between the company's work in American drama and Puritan history; and the added power with which they have now charged the stern formalities of Arthur Miller's seventeenth-century Massachusetts has yielded the best version of the play that I have seen.

Its key qualities are passion and clarity, held in perfect balance so that no emotional outburst obscures the line of narrative argument; not an easy thing to achieve in a story containing so much bullying, accusation, and mass hysteria, and which can easily swamp precise ironies under waves of easy pathos and indignation.

The play starts at an emotional peak with the Rev. Parris's distraught prayers for his daughter's bedside and continues its panic-stricken crescendo up to the arrival of the grave Rev. Hale, the first witch doctor. But amid all the inquisitions and threats, the plague of superstition runs through the village, the non-religious motives underlying the epidemic are laid out as unmistakable evidence: not only of a bigoted and fanatical Puritanism, but of the human condition, and of the power of the human mind.

Nothing at this stage, is done to lead the eye to the favour of Mark McManus's Proctor, who first appears as a dour employer, has pulled straight down over his eyes, threatening his truant servant with the whip; and then capitulating to Caroline Embury's Abigail at their first reunion since his wife turned her off the farm. The sense of an austere, frugal existence, in double discipline to the soul and to the body, is inherent in the whole stage picture.

The degree of social and domestic reality established in the magnificent first two acts is maintained by the subtlety of sustaining belief when the play finally turns to undisguised melodrama and an operatic death act finale.

The third act trial is much improved from its Cottesloe performances; thanks partly to the human variety Tony Haygarth is now bringing to the MacCarthyite Governor Danforth, still a bigoted tyrant, imperious to the point of contempt, but now quite capable of the soft approach, and of relaxing for an off-duty gossip about trials of the past. Also, the new casting includes such actors as Trevor Ray and John Barrymore, who lend complete credibility to the sight of ordinary villagers swelling into religious creatures of the crowd or quietly standing their ground against it.

The second act, however, remains the main experience of the evening. Its construction never ceases to amaze; moving from a domestic scene to a religious expression of extreme emotions with the minimum of physical means. It is typical of her scenes with McManus that whenever they part, they merely pat each other's full embrace is reserved for the moment before the gallows.

Some of the reviews on this page are reprinted from yesterday's later editions

Book review—

Architectural History of Venice

By Deborah Howard

(Batsford, £15)

This book should be read between visits to Venice: after the first, and before the subsequent. To read it before the first visit would be confusing, for by concentrating on architectural history on a building by building basis, it conveys an impression of the city, overall, as a collection of islands, each with its own history, and each with its own architecture.

It is far too detailed to act as a guidebook. On the other hand, its scholarly information on various buildings which might not be in the standard tourist circuit adds a new dimension to the place.

The matter of the book is simply described: an architectural history from the origins of the city to the present day. Some architects previously unknown to me are identified, and considerable pleasure may be obtained in looking at a Venetian building (say, Sansovino's Palazzo Nuovo, built 1564) and recognising its direct descendants in other countries and other centuries (the Place des Vosges in Paris, and Covent Garden in London). Oddly, Dr Howard makes little or no reference to such influences.

Batsford, of course, has a fine tradition of excellent, well illustrated books on technical subjects for the lay reader. Two of their earlier titles—Braun's English Castles and Crossley's English Abbeys—are on their way to becoming collectors' items. One clear difference between Venice and these is the influence of the Courtauld Institute, about which one may have doubts. It may well be that the scholarship is greater; but so, alas, is the faintly academic textual language, and the references to other critics of whom the lay reader may be unaware. "As Wittkower has shown" (a typical phrase) is an unnecessary exemplification. Moreover, my copy lost an entire chapter by double-printing obscuring the text. Finally (of these nigglings) it is irritating that the more frequently and prominently mentioned names in this book of great architects are those of the photographers. Yet, of the cost of visiting Venice, the price of this book would be a third or two well spent.

Charles McKean

EXCLUSIVE!

Wuthering Heights

Merle Oberon, Laurence Olivier, David Niven

GATEWAY

May Fair Hotel Station St

Redford in a far from ordinary direction

Ordinary People (AA)
Plaza 1

The Great Santini (A)
Gate 3, Camden Town

Penitentiary (X)
Eros, Piccadilly; Odeons Kensington, Westbourne Grove, Swiss Cottage

Blood Beach (AA)
Screen on the Green; Scene, Leicester Sq.; Odeon, Kensington

Ordinary People, Robert Redford's debut as a director, has already earned a fortune in the United States as well as a heap of Oscar nominations. Something about it, evidently, has caught the imagination of the American public in a way that is rare for such a quiet, modest and, indeed, ordinary film. The director's contribution is reticent and unobtrusive; his aim, not surprising perhaps in an actor, had been to give the stage wholly to the text and the performances; and both are, certainly, exemplary.

The script is based on a novel by a Chicago housewife, Judith Guest, which Redford snapped up before publication. The people in it are "ordinary" in the sense that they represent the moneyed suburban bourgeoisie, a class which once inhabited the cinema almost exclusively, but which has now, as Robert Redford points out in an interview, fallen out of fashion with progressive American film-makers.

Their story too, is in its essentials ordinary familiar to film audiences. Calvin and Beth look like model parents; but since the death of their adored elder son, and his own suicide attempt, the younger boy, Conrad, has become solitary and estranged from them and from his school friends. Reluctantly Conrad goes to a psychiatrist and psychiatry does not betray the national faith in it. After a succession of crises and sense of guilt that blocks his mind, and emerges to face the problems that still read the family.

So far, so ordinary. But, whether the writer (Alvin Sargent) or director were all too aware of it, there is a deeply subversive content in the film; and perhaps it is this upon which—again maybe only half-consciously—the American audience has seized. On the foundations of the entire last happy, WASPish family (there is a comic conversation between Beth and her mother about the Jewishness of the psychiatrist); but Conrad's problems expose the shaky foundations of the entire institution. Calvin, the caring breadwinner, is revealed as insecure, weak, quietly terrorized by his wife and by his own



Donald Sutherland and Mary Tyler Moore in Ordinary People

bewilderment in face of the family break-up.

In Beth—played by Mary Tyler Moore, who made her name as American television's ideal wife and mother—the maternal myth is undermined as ruthlessly as in David Storey's *In Celebration*. Beth is the idealized and idealized American woman, perfect in her culture, in the kitchen, on the tennis court, the golf course, at parties. But in her total inability either to come to terms with her son's problems or to acknowledge her own (an irrational resentment of the surviving son since the loss of the adored elder boy) she is exposed as the prisoner of the myth. The traditional matriarchal has over the years made her incorrigibly egocentric—unwilling or unable to acknowledge criticism, change or indeed anything that is disagreeable or attacks her decreed status quo. At the finish the film posits for this ordinary family unit is for the mother to walk out on the affair and the home, leaving father and son alone, reconciled to each other and their problems.

The Great Santini (whose title might lead you to expect almost anything except an American family saga), is, conversely, about the father. Colonel Bull Meechum is an army husband, dragging his reluctant family around the country from one base to the next. Exposed to society at large, he is just a dull drunkard, a coward (at the start of the film we see him emptying a civilian restaurant with his objectionable pranks at a unit farewell party). On duty as a Marine Corps jet ace and com-

mandor, he is a martinet. At home, too, he is as tough a disciplinarian, bellowing his long-suffering wife and resentful family out of bed in the small hours and subjecting them to inspections and in good moods "sports" fans. The special victim is his 15-year-old son, whose intelligence and gentleness are the sort of sissy qualities that rouse his macho father's ire. The full poverty of this ultimate fascist is revealed, however, in his petish fury when this son beats him in a ball game.

The character is played by the excellent Robert Duvall (in some respects it might be the private life of the military man he plays in *Apocalypse Now*) and is a wonderful creation, overdrawn but always with such skill that it remains always just within belief. This apart, the film is a mess of mixed excellences. A side plot involving the boy's friendship with the black maid's outsider son is interesting, but remains on the level of a sentimental exercise. In the end, too, Lewis John Carlino, as director and writer, equivocates. A father and victimized son are reconciled by mutual understanding; and the father is hallowed by his death on duty. In the last scene we see the boy taking on his father's autocratic role within the family. It remains in the perception of the beholder to divine the author's own feelings.

Both these films incidentally show American acting at its professional best. In the Redford film an unaccustomed weak and tentative character brings out new qualities in Donald Sutherland. A new

time, so it is pleasing to welcome him back, typically in several guises: as co-writer, with Doc Pomus, of the songs on B. B. King's new album, as the producer of Chris Barber's latest recording, and as a guest in the trombonist's current touring show, which takes as its theme the music of New Orleans.

Wednesday's programme opened in the most obvious way, with a brass band playing through the audience playing "Just a closer walk with thee" and "The Saints". It was succeeded by Barber's regular act, moving from the straight traditional style through a lively jump blues to a pair of Ellington tunes, "Creole love call" and "Queen Bees".

Rebennack arrived at the piano for a loose and lengthy version of "Iko Iko", assisted by idiomatic snare-drum work and punching horn riffs. His playing, a rugged version of Professor Longhair's "rumbalero" style, and his croaking voice, which seems to have been marinated alongside the hot sausage and chicken-necks in a bowl of *filé gumbo*, were well displayed on an eight-bar blues and a rousing account of "Mess around". Barber, who has done much over the years to promote the blues in Britain, shared the audience's justified glow.

which featured sensitive ensemble playing and extrovert saxophone solos from Ian Wheeler (alto) and John Crocker (tenor).

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actress, Blythe Danner, is extraordinary as the army wife, proud, dutiful, submissive to the husband-officer. Both the young actors who play the respective sons are astonishing for their sensitivity, tact and emotional range. Timothy Hutton, in *Ordinary People*, is the son of another actor, the late Jim Hutton. Still the skinnier, pimply, doe-eyed adolescent, Michael O'Keefe in *The Great Santini* acts with the kind of inflexible instinct that maturity and training rarely bring.

Penitentiary is a black film, written, directed and produced by James Fauska, which combines with unashamed exploitation (sex and violence are intercut in the climactic scenes with transparent calculation) very efficient qualities of writing, acting and *mise-en-scène*. The starry Leon Isaac Kennedy plays a man committed on a wrongful murder charge to a virtually all-black prison, where he effectively defends himself with his fists against the rule of bully force and homosexual proprietorship. It is rough fast-moving and enlivened by arresting character performances.

Blood Beach, written and directed by Jeffrey Bloom, offers exactly what is expected of it: a thing that emerges from the beach; mysterious disappearance; a cache of corpses and human spare parts; heroic life-guard; distressed scientist; oblique cops; and eerie music to point up every moment of horror, just in case you do not notice.

On no account, should the short work *Ordinary People* be missed. Directed by Roger Christian, a former National Film School student, *The Don-*

which featured sensitive ensemble playing and extrovert saxophone solos from Ian Wheeler (alto) and John Crocker (tenor).

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SPORT

Ice skating

European champions strike the first blow for Britain

From John Hennessy
Hartford (Connecticut) March 5
Jayne Turville and Christopher Dean, the British and European champions, struck the first blow in the ice dance event of the world championships here this morning. They won the first two compulsory and have thus established a comfortable lead over Rina Mulenba and Andrei Minenkov, of the Soviet Union, former world champions, and Jody Blumbers and Michael Seibert, holders of the American title.

There is some way to go yet, with another compulsory tomorrow together with the original set pattern, and the free dance on Saturday, but the polished technique and sophisticated presentation of the British couple achieved today a strong edge for the gold medal. One judge, the Canadian, placed the Russians ahead by 0.1 in the compulsory, but the overall position suggests that at least Britain will go into the free dance with an encouraging lead.

The second British couple, Karen Barer and Nicholas Slater, are in seventh position and the third, Wendy Sessions and Stephen Williams, are 11th.

The pairs final last night produced a result that would have been inconceivable a few years ago, when the sport was monopolistically predicated on the part of the medal winners at Dortmund last year has survived. True, the silver medalists have suffered injury, but the Russian pair, the tide were here relegated to fourth place and the holders of the



Flowering of talent: the medal winners in the pairs competition accept tributes.

(US) on 2.3, Fumie Igarashi (Japan) on 4.4, Ezer Bohin (Soviet Union) on 4.6 and Brian Puckar (Canada) on 5.0.

It now seems that Puckar has dropped out of the running, since his free skating is hardly likely to be strong enough to recover the handicap his eighth place yesterday has inflicted on him.

The Japanese and Russians could still aspire to the gold medal but only by default. Hamilton, on his day, is the best

Racing

Hopeful Shot switches to a new target

By Michael Phillips
Racing Correspondent
The race meeting due to be held at Haydock Park this afternoon was scrapped yesterday because of the weather. But provided that the weather does not turn rainy in the next few days, it will be possible there tomorrow simply because the stewards of the Jockey Club were able to draw up contingency plans sufficiently far in advance when they were warned about the problem on their horses course by their inspector of courses.

Tomorrow's card will now comprise only the steeplechases originally due to have been run during the two days and it should make for an enthralling programme. Because of the problems at Haydock the field for the March Handicap Hurdle at Newbury today now includes two horses who otherwise would have run in the more valuable Victor Ludorum Hurdle on Saturday.

Hopeful Shot, who is my selection in this instance, has won twice already at Newbury this

Rugby Union

England must raise their game to crack Irish nut

From Peter West
Rugby Correspondent
Dublin, March 5
The chairman of England's selectors, Lord Rogers, said in Dublin yesterday that he regarded tomorrow's international against Ireland as representing a real test of the team's mettle. "There is only one way we're going to win it," he said, "and that is by control up the field. The time is due for our forwards to provide their best performance in the championship."

These views, surely realistic enough, were echoed by the captain, Bill Beaumont, who won his first cap in Dublin six years ago. He said he was looking forward to the first game as being the toughest he had ever played in. "We're always looking forward to the first game," he said, "and although Ireland have lost to France and Wales, it would not have taken much for them to have won both games. They're bound now to make a tremendous effort against us. Every international is tough, especially when it's away from home, and we're under no illusions that this one will be as tough as any."

Newbury programme

[Television (BBC 2), 2.30, 3.0, 3.30 and 4.00 races]

2.0 WHATCOMBE HURDLE (Div I: Novices: £1,225; 2m 100yd)

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| 1 | 19913 | Tru Man, P. Smith, 12-10 | 2 | 19914 | Tru Man, P. Smith, 12-10 |
| 3 | 19915 | Tru Man, P. Smith, 12-10 | 4 | 19916 | Tru Man, P. Smith, 12-10 |
| 5 | 19917 | Tru Man, P. Smith, 12-10 | 6 | 19918 | Tru Man, P. Smith, 12-10 |
| 7 | 19919 | Tru Man, P. Smith, 12-10 | 8 | 19920 | Tru Man, P. Smith, 12-10 |
| 9 | 19921 | Tru Man, P. Smith, 12-10 | 10 | 19922 | Tru Man, P. Smith, 12-10 |
| 11 | 19923 | Tru Man, P. Smith, 12-10 | 12 | 19924 | Tru Man, P. Smith, 12-10 |
| 13 | 19925 | Tru Man, P. Smith, 12-10 | 14 | 19926 | Tru Man, P. Smith, 12-10 |
| 15 | 19927 | Tru Man, P. Smith, 12-10 | 16 | 19928 | Tru Man, P. Smith, 12-10 |
| 17 | 19929 | Tru Man, P. Smith, 12-10 | 18 | 19930 | Tru Man, P. Smith, 12-10 |
| 19 | 19931 | Tru Man, P. Smith, 12-10 | 20 | 19932 | Tru Man, P. Smith, 12-10 |
| 21 | 19933 | Tru Man, P. Smith, 12-10 | 22 | 19934 | Tru Man, P. Smith, 12-10 |
| 23 | 19935 | Tru Man, P. Smith, 12-10 | 24 | 19936 | Tru Man, P. Smith, 12-10 |
| 25 | 19937 | Tru Man, P. Smith, 12-10 | 26 | 19938 | Tru Man, P. Smith, 12-10 |
| 27 | 19939 | Tru Man, P. Smith, 12-10 | 28 | 19940 | Tru Man, P. Smith, 12-10 |
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| 31 | 19943 | Tru Man, P. Smith, 12-10 | 32 | 19944 | Tru Man, P. Smith, 12-10 |
| 33 | 19945 | Tru Man, P. Smith, 12-10 | 34 | 19946 | Tru Man, P. Smith, 12-10 |
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Geoffrey Smith on why the Tory Party chairman should be looking for his successor

A warning Lord Thorneycroft cannot ignore

Lord Thorneycroft is the wise old uncle of the Conservative Party. He played that role to perfection in the run-up to the last election. In the early phase of the present Parliament he was less prominent, largely because the Party was in office but he was not in the Cabinet.

In the past few weeks, though, he has come more into the picture, with broad hints to the younger ones that it was time they started speaking like politicians again. Forget about dogma, take care of the voters—that has been his message.

It was because Mr John Biffen was falling over himself to forget about dogma in his controversial television interview with Mr Brian Walden that Lord Thorneycroft so much approved of his performance.

In this role he remains a considerable asset to the party. He has the panache and flourish of a bygone era, which enhances the impression of wisdom. His age and special position enable him to offer candid advice, to propose changes in political style, without being suspected of personal ambition. He is one of the few people around the top in Conservative politics from whom Mrs Thatcher could afford to take unambiguous advice without fear that her position was being undermined.

Such a man must always be valuable, but double so in the Government's present condition when it is faced with a daunting problem of presentation—whatever the substance of its policies turns out to be.

This is not the only role, however, of the Conservative Party chairman. He is also responsible for running the party without fear that her position was being undermined. It must be said quite simply that in this task Lord Thorneycroft has made rather a mess of things. It is not just that he is not particularly interested in administration himself. He has not surrounded himself since the election with people of sufficient weight to perform that function for him.

Before the election Lady Young, as deputy chairman, acted as a virtual managing director. But she is now Minister of State for Education. To fill the gap at Central Office Mr Alistair McAlpine became deputy chairman as well as treasurer. As treasurer he has been notable for his skill at raising money, and as deputy chairman he has been notable for spending even more than he has raised. It is a tendency with which many of us must instinctively sympathize, but the consequences have been embarrassing.

In the financial year 1979-80 the Party was spending on the basis of a projected income of £5.3m, but it received £600,000 less than that. In the present financial year it planned to spend £5.3m, but its income is now estimated to be falling £1.5m short.

For the coming year it is now accepted that income is not likely to be above £3.8m, which will require even more severe economies than are implied by comparison with the projected income of the year before because substantial interest will now have to be paid on the accumulated losses. Nor, surprisingly, gasps of anguish are heard as belts are tightened. After the last election the Party was run with out departmental budgets. Then last summer Lord Thorneycroft asked to cut spending by £750,000 through a number of savings, including the highly

controversial decision to eliminate the community affairs department as a separate entity. In December, departmental budgets were reimposed again and it was decided that 10 per cent must be cut from what each department had spent—excluding salaries—taking an average between the years 1973-80 and 1980-81. Now, this week further cuts of 10 per cent have been imposed.

It is impossible for economies of this dimension to be painless. The effects will be felt by the Party in the country as well as at Central Office. The research department, which was brought into the Central Office after the last election by Lord Thorneycroft in another of his controversial moves, seems likely to suffer. So will publicity. One probable saving will be the £200,000 or so spent on



Lord Thorneycroft: a good deal of stick lies ahead.

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Satchi and Satchi for party political broadcasts. Between now and the election at any rate these broadcasts are likely to be produced by the Party itself.

Economies on such a scale are bound to increase the tensions that already exist within the party. Lord Thorneycroft has never got on particularly well with the National Union, the leaders of the voluntary side. They have felt that there has been a lack of consultation and that he has been rather too keen to look at ways in which their operations might be improved—in the organization of the annual conference, for example.

There will be all the more discontent if the party does as badly as is expected in the local elections in May. It is one of the injustices of politics that when the party wins votes the parliamentary leaders get the credit, but when it is in electoral difficulties the party organizers take more than their share of the blame. Lord Thorneycroft can therefore expect a good deal of stick before May is out.

Altogether, it seems most unlikely that the present team at Central Office will be able to restore confidence within the party. The feeling will have to be conveyed of a new beginning. The most obvious means of doing this is to have a new chairman. But there are difficulties about this. The natural replacement would be Mr Francis Pym, but he became Leader of the House of Commons only two months ago. It would be almost equally undesirable for him to combine that office with the chairmanship of the party or for there

to be another change so soon in the leadership of the House. It is hard to see anyone else, when Mrs Thatcher might consider appointing, who would both manage the party better than Lord Thorneycroft and be equally effective as a guide and counsellor.

The need for a wise voice will become all the greater with the emergence of the Social Democrats, who present the Conservatives with unusual problems. As Lord Thorneycroft has been one of the first to appreciate. But if he is to continue he will need a political figure of some standing as his deputy. The role of managing director is in effect being filled at the moment by Mr Alan Howarth, who was Lord Thorneycroft's personal assistant, then became head of the research department, and now combines that function with the office of vice-chairman. He is an active coordinator, but he does not have the seniority and command of the party to command the confidence that alone could make unpleasant measures generally acceptable.

Unless Lord Thorneycroft appoints someone of such seniority as his deputy it would not be surprising to see him swept away in the course of the year in a surge of Conservative anguish. Nor would this be an unjust outcome if he cannot or will not find such a deputy. If he will not have been penalized for speaking out. He will not have been punished for his lack of doctrinal conviction. It will simply be that having spent so much time warning the Government to protect its flanks against attack, he will have failed to apply that same advice to himself.

Now for the L-shaped slump

Economists love to use the letters of the alphabet to describe recessions. They can be V-shaped (a quick recovery) U-shaped (things stagger along a little before turning up) or even W-shaped (there is a false dawn, with another bout of recession before things pick up finally).

The recession we are in now is beginning to look suspiciously like an L-shaped slump. The drop in output is the worst since the war; the drop in manufacturing output is the worst this century, worse even than 1929. Even more depressing, there is no sign, whatever ministerial optimism may say, that any significant recovery is in sight.

Output is now about 6 per cent lower than it was at its peak in the spring of 1979. Unemployment has risen by well over a million.

It is all very different from the aspirations the Government had on beginning its policy. They believed that as long as the country knew that tough money policy was going to be pursued, this would on its own get down the inflation rate. Having conquered inflation, they would be able to get sustainable growth, so that we would end up with price stability and rising output. Neither of those things will be achieved under present policies.

Ministers keep anxiously searching for signs that we have touched bottom. We have not. The bottom is still being touched. What the ministers do not say is that having touched bottom we shall pretty much stay there.

Far from laying the base for faster growth in the future, the drop in output is likely to be followed by near stagnation.

With nearly two years gone of the Government's term of office, unemployment is rising inexorably towards three million. The London Business School, whose forecasts are more optimistic than other mainstream forecasters and whose views are quite close to the Government, predict falling living standards each year between now and 1984. The Confederation of British Industry expects unemployment to rise until 1985. Forecasters agree that the Government will enter the election with national output well below the level at which it took office.

All of these forecasts, it should be stressed, contain assumptions which work in the Government's favour. The actual outcome could be even worse.

Ministers have shown some realism on these things are not going well in the public mind. Words like gradualism and pragmatism are being relearned. There are also continuing examples, such as aid to BL, where the Government's actions are very different from what one would expect from its theories. But in spite of all the failures, the evidence suggests that Government ministers, particularly Mrs Thatcher, have not really accepted that the policy is failing because it is wrong.

Whenever they speak of 1 takes, they are always failing to be tough enough about public spending or public borrowing. The Prime Minister still uses the word "reflation" as an insult.

The medium-term financial strategy has been a debauch to now, with money printing growing by instead of being cut by 10 per cent. The Government claimed it would achieve. No matter say the mists, the signs are there. MTFs is being reworked in another contract to convince people that the policy is a course.

The Government's efforts controlling spending have been sabotaged by the rise in unemployment which itself is scheduled for next year will be at least 3 million. But can be sure that ministers promise that they will or next year or the year of it is easy to see why this so. No one likes admitting it were wrong. The Government were convinced that right money policy combined with a recession would defeat what the fact that it has happened does what has happened does, that the next half of the demand can make the economy expand, any more accept.

Yet that is clearly the message which the economic forecasts of the CBI propose. It is a message which is being repeated in lots of (flam about "development" government policies, but it actually want a straightforward refutation of £1,500m a year instead of the deficit which we are currently getting.

Government believes that its overall policy have certainly not been tough. Instead, it says that 1 way things have worked means that the balance between the various sectors of the economy has to change. It is a message which is being repeated in lots of (flam about "development" government policies, but it actually want a straightforward refutation of £1,500m a year instead of the deficit which we are currently getting.

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The real burden tax on economy has gone up and this Government and the tax individual wage earners v almost certainly go up again next year. People have votes; companies do not. The is no way that the Government will be able to give assistance to companies at the expense of the rest of us as win the next election.

Cuts in interest rates and shifting taxes from companies to individuals may help in the short run to slow down the rise in unemployment, but the will not produce sustained growth in demand and output. Because the supply of jobs is not large enough. It is not, any case, so much the way in the cake is shared out as the fact that it is too small which is the problem. Whatever a Chancellor says about this year's Budget, for business the closures will go on for some time yet. Even the drop in the value of the pound recent weeks, although good for industry, will have only limited effect.

Would any policy aimed at getting more expansion be automatically to more inflation? Not necessarily. For example, cuts in interest rates, employers' national insurance contributions would actually reduce costs at prices. So would a reduction in the rate of value-added tax.

Increased investment in parts of the public sector could also help to get output without fuelling inflation. Inflation is not the only thing which matters in the economy. So do jobs, real living standards and investment in the future. So far the Government has tried to claim that it can do nothing about these things. I would say that next year would be a good time to start.

David Blak
Economics Editor

William Frankel takes a critical look at the EEC's attitude towards Middle East peace efforts

What President Sadat really told Europe

The European Parliament is seldom newsworthy but it did make an impact on the international scene one day last month when President Sadat delivered an address on peace in the Middle East. The Egyptian leader has a flair for capturing headlines and this speech was widely reported because of its topicality in the light of the EEC's efforts to involve itself in the Middle East peace process.

His main points can be reduced to three. He made it abundantly clear that he was not abandoning the framework of the Camp David agreements. Secondly, he declared his support for Palestinian self-determination and the creation of an undefined "Palestinian entity" after a transitional period. Thirdly, he saw Europe's role in the peace process as no more than providing "additional security guarantees".

Nevertheless, the Foreign Office appeared to be thrilled with the speech and its spokesman commented: "We are, of course, delighted by the welcome which President Sadat has given to European efforts for peace in the Middle East." But President Sadat had patently done nothing of the kind. He was courteously requesting his hosts not to interfere with the slant given to this message by the Foreign Office only illustrates the eagerness of Lord Carrington, the power behind the European initiative, to promote and dignify his deplorable diplomatic campaign.

The recent history of Europe in Middle East affairs is a craven one of expediency. Ever since President Sadat transformed the Arab-Israeli conflict with this journey to Jerusalem in 1977, the European community has shifted uncomfortably from one foot to the other. Five months earlier, its Council of Ministers had declared its interest in affirming, for the first time, the need for a homeland for the Palestinian people, a statement unlikely to have any other practical effect than as a gesture of friendship and support for the rich and powerful Arab world.

The Sadat mission was awkward for the EEC. On the one foot it was difficult to object to this giant step towards peace;



President Sadat: his mission proved awkward for the EEC.

on the other, enthusiastic support was likely to anger the oil suppliers who remain unconvinced by Israel's existence.

France, more anxious than the others to please the Arabs, at first vetoed a statement supporting the Sadat mission though eventually, under American pressure, the Nine did offer it a guarded and qualified welcome. Then they maintained a 10-month silence (ignoring two appeals from the Egyptian leader for a further declaration of support) broken by a statement of welcome for the Camp David accords in September 1978. When the Egypt-Israel peace treaty was signed in March 1979, the EEC support was restrained, again at the prompting of France, because the Arab world objected to this piece of peace.

The arrival of a Conservative Government in Britain and with it Lord Carrington and Sir Ian Gilmour at the Foreign Office, coincided with the publication of yet another Middle East statement by the Community in June 1979. It restated the right of the Palestinians to a home-

land and denounced the policies of Israel but contained not a word of encouragement for the peace process or for Egypt and Israel, the only two Middle East states talking about peace. Finally came the most precise statement so far of the European initiative in the Venice summit last June. The Europeans now announced their intention to engage in active diplomacy to bring about a Middle East settlement with which the Palestine Liberation Organization, not just the Palestinians, would have to be associated.

Neither of these two propositions, central to the European thesis, has ever received the support of President Sadat, or for that matter, of the United States and Israel. In fact, they all regard them as disruptive of the peace process—but Lord Carrington obsessively presses on. His meeting with Mr Haiz in Washington did not, according to the reports, persuade the Americans to change their view. That may be because the progress that has so far been made has owed nothing to Europe. The United States

alone has retained the confidence of both parties to the conflict and has used that position to encourage and help the compromises and concessions which led to Camp David and peace. Europe's main concern has been to protect its oil supplies. That is a legitimate national interest, as is the search for peace in the area. But in the partisan pursuit of these objectives, the Europeans have disqualified themselves from any role as honest brokers.

That job of conciliation can still only be performed by America and, although difficult problems of implementation await resolution, the Camp David agreements remain the best available option. The process has stalled but Camp David is by no means dead or even moribund. The alternative which the European initiative purports to offer is not only unrealistic but a hindrance to the further bargaining of the firs and only successful stride towards peace in the Middle East for 30 years.

Europe offers to the Arab rejectionists the hope that a settlement on their terms can be imposed on Israel. The PLO is offered recognition without paying the price of accepting Israel and abandoning terror. Why should the Arabs face the daunting responsibility for the continuation of conflict should be planned on Israel. The searchlight of the media are directed to the plight of the Palestinians, in camps or in the 22 Arab states, unable to return to their homes in Israel. Receptive ears are turned to the protests of the West Bankers against the frustrations of occupation. Responsible journalists file pathetic stories, factual in themselves but unbalanced because other relevant facts are ignored.

It is rarely recorded that the sufferings and disabilities have arisen as a result of wars initiated by their own leaders or that, with the sole exception of Egypt, the Arab world still maintains a state of war with Israel. The interested world is not reminded that the redress which is available to some of the victims is rejected by them because that would involve communication with Israel.

Above all, critics of Israel show little awareness, let alone appreciation, of the country's safety necessities in a situation where weakness or excessive concessions under pressure could mean annihilation. This selective indignation shared by the Soviets, Arabs and the New Left distorts a complex and emotive problem and by diverting attention from the real source of the conflict, furthers the search for answers. Objectionable Israeli policies are a consequence of Arab enmity, not its cause. Given time in which to draw the lessons of the Egypt-Israel peace and aided by a period of benign neglect from the rest of the world, some other Arab states may well see the advantages of moving in the same direction.

So far as the EEC is concerned, its members could play an honourable and constructive role were they to encourage the Arabs to sit at the negotiating table and the PLO to lay aside its grenades and guns. Such a policy might not ingratiate them with those who wield the veto but it is more likely to contribute to peace than a policy of appeasement.

To deflect the attention of the world from the real obstacle to progress—their own unwillingness to yield to Israel—the Arabs have tried to persuade their friends and customers that responsibility for the continuation of conflict should be planned on Israel. The searchlight of the media are directed to the plight of the Palestinians, in camps or in the 22 Arab states, unable to return to their homes in Israel. Receptive ears are turned to the protests of the West Bankers against the frustrations of occupation. Responsible journalists file pathetic stories, factual in themselves but unbalanced because other relevant facts are ignored.

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MOSCOW DIARY

A show designed for the media

It is all over, and Moscow is breathing a large collective sigh of relief. The 26th Party Congress, over which officials sweated for months drawing up plans and programmes in the minutest detail, has ended after eight interminable days. The delegates have gone home, the flags are coming down, the slogans are being rewritten and life in the capital is returning to normal.

To me and to thousands of others it all seemed just like the Olympics again, only with show on the ground: police everywhere, parading the pavements, standing around the main hotels, blocking streets and stopping as many private cars as they could catch to whip off the number plates on the tightest excuse and then conveniently reduce traffic congestion. There were last-minute efforts to tidy up the city, lock up any remaining dissidents and brighten up the

shops with a bit of glitter and fresh consumer goods. Black cars with government number plates roared all round the city carrying important people to important meetings, and then parked in long rows outside the Kremlin while their drivers sat back in their seats, pulled their fur hats down over their faces and snored for the best part of the day.

Tickets for the Bolshoi and for the theatres became almost impossible to obtain, even for ready money and the appropriate letter to the box office, as black bookings were made for the 5,000 delegates in town, not to mention their guides and escorts. Now the Bolshoi troupe can move back to its second home—the plush 6,000-seat glass and stone Palace of Congresses in the heart of the Kremlin—built by Khrushchev especially for these five-yearly jamborees.

Like the Olympics, the Congress was really a show for the media. They were all back in town—friends and colleagues from other papers, camera operators, producers and commentators. And we all got together again in the special Olympic press centre, a rather smart building equipped with

batteries of Telexes and telephones, a good restaurant and, most important, a decent bar with polite, uniformed barmen and unlimited quantities of whisky.

There was also the daily briefing, and an extraordinary sense of *déjà vu* when Mr Vladimir Popov, the suave and accomplished Olympic spokesman, joined others on the platform at the opening session. He now has a job as deputy head of Soviet television, and so was busy taking care of what the Russians call the "electronic media".

Newspaper journalists were briefed by Mr Leonid Zamyatin, the former head of Tass and now a close aide of Mr Brezhnev and official government spokesman. He is an influential figure in the Soviet Union, a combative hard-liner with decisive views on the functions of the press and a skilful knave of giving opaque answers to questions that go beyond the framework of what the Russians term "constructive journalism". He was not a little miffed that an hour-long interview he granted to the American ABC television company was cut back to three

minutes: the same would never happen here.

But in general the press coverage seems to have satisfied the Russians. They certainly kept the most detailed statistics, and it was much easier to find out everything about other journalists than anything about what the Congress delegates actually said. Altogether, Mr Zamyatin announced on the final day, 1,006 journalists from 60 countries were in Moscow to cover the event, including 230 from radio and television.

There were 10 press conferences, 21 meetings with Soviet and foreign delegates, and 220 interviews arranged with political figures, scientists and cosmonauts. Soviet television broadcast 100 hours of material on the Congress, picked up in part in 87 countries and viewed, Mr Zamyatin boasted, by 2,000m people. Mr Brezhnev's report was printed in 64 languages in a total edition of four million copies.

But though a media event, it was very different from American party conventions or British party conferences. You could not just wander in and button-hole a delegate or two as they were on their way to lunch,

in fact you could not wander in at all, as the whole of the Kremlin was cordoned off and no one was allowed in or out wearing the official Congress lapel badge. And even when the odd delegate made his way down to the press centre, you had to be escorted up to see him in special conference rooms on the upper floors.

One man who did come and talk to us was Mr Gordon McLennan, the secretary of the British Communist Party. A courteous, quiet-spoken Scot, he was rather well received in Moscow—he was the only so-called Eurocommunist to address the Congress and managed to mention disagreement of the dreary subject of Afghanistan. He also gave a long interview on the main evening news bulletin. He was rather distressed that Anglo-Soviet relations are so bad—"stagnating", in Mr Brezhnev's phrase—and thought Britain should at least send out a few officials here to get grade moving again. Last year showed a sharp fall in trade turnover, and Mr McLennan said British exports to the vast Soviet market would do a lot to help our dire economic situation.

No one let him into any secrets of Soviet policy while he was mingling with fellow delegates, at least not any that he was ready to reveal. "No, no, they won't talk to me about that sort of thing," he disclaimed modestly. He was resolutely optimistic that things would work out all right in Poland. And, though he was delighted with developments back home in the Labour Party.

Mr McLennan had appropriate words of praise for "Comrade Brezhnev"—appropriate, that is, by British standards, though giving the galloping inflation in this commodity they fell well short of the standard achieved by others.

Mr Geidar Aliev, party secretary of Azerbaijan, contrived to mention Brezhnev 13 times in his speech. Among his honours phrases, he called the Soviet President a "worthy leader", a "true follower of the deeds of Lenin", a man whose great attractive force "inspires and mobilizes" Communists and workers. He said all people of good will throughout the world were saying: "Hearty thanks to you, dear Leonid Ilyich, for peace and for your priceless achievement."

And in a particularly purple

passage he declared: "By his mighty deeds for the wellbeing of the Soviet people, in the name of the creative Communist ideal, Leonid Ilyich has won the love of all the nations and the highest authority in our country, universal recognition as a staunch leader of the Communist Party and Soviet state, a tireless champion of peace on the planet."

Similar sentiments peppered the speeches of almost every delegate for the next two days. They all commented the "exceptional profound theoretical and political analysis" in Mr Brezhnev's speech, and whose praise for his accomplishments was invariably interrupted by "prolonged, stormy applause" as the official scribes recorded. Then suddenly it all stopped. It appears that the torrent was deemed a little too effusive, even for this exalted occasion, and the word went down to cut it out.

For many of the delegates, whose careers are now assured after representing their distant provinces at the Congress, this was the first time they had even been to Moscow. And they were well looked after with tours and excursions, visits to factories and famous build-

ings. Foreign delegations were taken to see the Olympiads—now a plum residential area—art galleries, museums, fur breeding stations, physics institutes and the place where they still decorate lacquered wooden boxes with miniature paintings. They were suitably appreciative.

Tass meanwhile has been scurrying around the world gleefully words of praise for the Congress from the bourgeois press, rather as theatres pick out individual words from censorious reviews to use in their advertising. And as the flow of documents begins to pour from the Soviet printing presses, Party officials up and down the country are poring over their new instructions. They have been set some herculean tasks. But it will be another five years before they have to go back and give an account of themselves. And meanwhile, a much more urgent priority is coming up. On Sunday it will be International Women's Day, a big Soviet holiday: time now to go to the market and haggle for some flowers and lay in a good stock of vodka. . . .

Michael Binyon

مكتبة في الأصل



CHANCE FOR PEACE IN THE GULF

The Islamic nations have been trying to mediate between Iran and Iraq for the past six months, under the leadership of Mr. Habib Chatti, General Secretary of the Islamic Conference. Their latest proposals include a ceasefire to begin next Thursday, followed by a withdrawal of Iraqi troops from Iranian territory a week later. This withdrawal would, under the Islamic plan, take a month to complete, and would be supervised by military observers drawn from member states of the Islamic Conference. The ICO would then establish a committee to adjudicate on matters of territorial dispute between the belligerents, first among these being the question of the Shatt al-Arab waterway, the immediate *casus belli*.

Will these suggestions prove even partially acceptable to both sides? There are some hopeful signs. Iran has always maintained that since Iraq is the aggressor, Iraqi troops must withdraw before negotiations can begin. The Islamic proposal meets this point, and indeed echoes ideas put forward recently in Tehran both by President Bani Sadr and by the acting head of the joint Chiefs of Staff.

General Valiollah Fallahi, Mr. Bani Sadr said yesterday that the withdrawal and ceasefire must be simultaneous, rather than sequential, but this need not be an insuperable difficulty.

Iraq may also be in a mood to come to terms. The six months of war have proved a drawn out affair, with bursts of bitter fighting alternating with a debilitating war of attrition along an extensive front line. Iraq has made only limited territorial gains, and has had to fight hard to hold on to them. Provided Iran is prepared to acknowledge what he calls "Iraq's rights", President Saddam Hussein is apparently ready to talk peace, and could in theory withdraw with Iraqi honour reasonably intact. President Hussein can, after all, claim to have dealt a blow against Iran on behalf of the Arab world, and to have denied what many Arabs see as the Ayatollah Khomeini's arrogant desire to spread his gospel of fundamentalist revolution throughout the Middle East.

The main obstacle to a peaceful solution of the conflict is the continuing opposition of hardline fundamentalists in Tehran, who retain a powerful hold over Iran's diffuse and often mysterious decision-making processes. The Islamic proposal offers Tehran the chance of a moral victory, if not a military one. The sensible course would therefore be for Iran to enable President Saddam Hussein to withdraw his troops gracefully, by offering him the assurances he seeks concerning Iranian respect for Iraq's territorial integrity and the impermissibility of force as a means of resolving disagreements.

It is perhaps unfortunate that the Islamic nation should have given the two sides barely a week in which to consider their formula. Equally, the time limit imposed may have the effect of concentrating the minds of leaders on both sides. Timing is indeed all important, since the war may well be about to emerge from its present lull. The arrival of spring and the end of the rainy season will soon bring with them conditions more suitable for fighting, and the tanks which have been bogged down in the winter muds will start to move again. A renewed trial of strength would be to the advantage of Iraq, which has been building up its military supplies from a variety of sources. If this chance for peace is missed it could be some time before another arises.

faith, and a responsible journal should always give complainants the benefit of the doubt.

The judgment whether to print or not stands within the range of editorial discretion. The editor is reported to have said that he could not submit his magazine to the council's jurisdiction. Such terms misrepresent the situation. The council is not a court, nor a body possessing disciplinary sanctions—though its existence helps to disarm illiberal voices from both right and left which would favour such restraints upon the press.

However unsatisfactory it may appear, no alternative system has been proposed that could command equally wide respect. No official tyranny compels editors to come before it, only the desire that it should be publicly seen that rivals in controversy have been given a fair hearing. In refusing to acknowledge its role, the *New Statesman* is flouting not the Press Council but the essential principles on which a free press must be conducted.

ment with the aid of binoculars, the committee recommended that a thorough investigation be carried out. There is not the slightest chance of prising £5m from the Treasury without one. The Government, careless of the risk of accidental by-elections, is still revolving its reply.

Ministers ought to brace themselves to meet that cost within the lifetime of this Parliament. Barry's and Pugin's great classical pile in gothic dress is more than a fine building and one of the glories of nineteenth-century English architecture. It is the seat of the central political process of the nation and has become the most familiar visual symbol of it. If the present occupants cannot look after the fabric of their own premises properly, how are they to be entrusted with the fabric of the state? The Dean and Chapter across the street do better with their charge, and without the public revenues at their command.

And yet, in the same letter, Mr. Winnick makes it clear that, in such a by-election and without party backing, the unfortunate MP is likely to receive "a derisory vote" and not be elected! Thus, in practice, an MP who dissents from his party line could make no effective Parliamentary protest; he must "stay and put up" or "get out".

Of course, this paradox is unacceptable. It provides yet another example, if such were needed, of the manner whereby anti-democratic forces work in our society. An MP is not mandated to follow a party line but is a delegate and as such must be capable of independent thought and action. Accordingly, on occasion he may go against the expressed views of his electorate.

It is only through a clear understanding of this basic principle and through appropriate action by courageous delegates that we can hope to end our party dogma dominated adversary system of government, and to create instead a governing body where reason can prevail.

Yours faithfully,
Wm. GRAHAM-BROWN,
Morehouse Park House,
Tenterden, Kent.

From Mr Geoff Holgate
Sir, Candidates in general elections receive votes on a party political basis not, at any rate to any appreciable extent, for their personal qualities.

Would it not be an act of political principle more in accordance with the expressed philosophy of those members of the Council for Social Democracy who have now left the Labour Party if they resigned their seats and thus gave the electorate an opportunity to express their opinions on their actions through the ballot paper in the subsequent by-elections?

Yours sincerely,
GEOFF HOLGATE,
2 Green Cleft Drive,
Clifton, York.

From Dr W. Graham Brown
Sir, In his letter concerning the prospects for the Social Democrats, Mr David Winnick (March 4) uses the familiar Catch 22 paradox to remove decision-taking from party organisations. He recommends that we should find that he can no longer sustain his party's viewpoint should, in all decency, resign from Parliament and submit himself to a by-election.

façades when the Houses of Parliament were rebuilt after the fire of 1834, was flawed by minute fissures formed during geological time. Their crystalline filling is dissolved rapidly by atmospheric pollutants. Fractures then appear. Repairs have had to be done more or less continuously, with an extensive refacing in the late 1920s using more durable Clapham stone. Even this is now suffering from contact with the magnesium limestone. The decay, partly due to removed material and partly to dirt and chemicals deposited from the air, proceeds apace.

It was the view of the select committee that what is needed is a conservation and cleaning job all over at an estimated cost of £5m—more, even correcting for inflation, than when the Commons was first notified of the problem eight years ago. Since the extent of the decay had not been fully established, less accessible parts of the building having been examined only from the pave-

ment with the aid of binoculars, the committee recommended that a thorough investigation be carried out. There is not the slightest chance of prising £5m from the Treasury without one. The Government, careless of the risk of accidental by-elections, is still revolving its reply.

New thinking in peace movement

From Mr E. P. Thompson
Sir, Your reasoned argument, "No safety in instability" (leader, March 3), allows, for the first time, that there is merit in the unilateralist case. But it can be faulted on two grounds.

First, while stressing the dangers of Soviet military pressure, you grossly underestimate the dangers in current United States strategies: as, for example, the contingency plans for "theatre" nuclear warfare in Europe, and the theories of "pre-emptive deterrence" in pursuit of sources of oil and strategic "strategic" minerals. Mrs Thatcher appeared to be signalling in Washington last week that Britain is a totally unattractive and inert client, no matter what hare-brained schemes Mr Reagan's advisers pursue.

Second, your argument misrepresents the position of the European Nuclear Disarmament movement, which is now influential in many parts of the continent. This position cannot be reduced to the simplicities of a unilateralist versus multilateralist debate. The objective is a nuclear-weapon-free Europe, and the means include the pressure of political movements and alliances of both persons and parties—pressing continually to effect lateral communication across the East-West divide, and to elicit equivalent responses among the Warsaw powers.

This is a rolling campaign, which can only be executed piecemeal and over time. No one supposes some instant success (on Thursday, February 3, 1982) when, by some open communication and exchange between persons and movements in the United States) will have disarmed, and all Warsaw powers will not. On the contrary, reciprocity is of the essence of the movement, and, without it, we can be sure that the movement will fail. For example, if European nuclear disarmament, under popular pressure, should reject cruise missiles and Pershing IIs—and if the Soviet Union did not, instantly, halt and then reduce its deployment of SS-20s, we can be sure that Western unilateralist movements would at once lose their popular support.

Another example: a nuclear-weapon-free space might be created in Europe, not instantly, but by adding one smaller zone to another. Already proposals for a Nordic zone (as under Article 33 of the Final Document of UN Special Session on Disarmament) are being actively canvassed. It is possible that such a zone might also eliminate "theatre" missiles from the Soviet Kola Peninsula. Similar proposals are being canvassed in Greece and Yugoslavia. From this point it is possible to envisage some revived variant of the Rapacki Plan, by which Poland and both Germans might be, step by step, demilitarized.

a free and fair election in Namibia. Little attention has been drawn to the fact that South Africa pours vast sums of money into the coffers of her client party, to the six figures each day. And she is not alone. The backing Swags gets from the United Nations (which would cease with an election campaign) looks like petty cash beside Pretoria's expenditure on its political campaign in Namibia. And the funds that will be forthcoming for South Africa's client party during any elections there.

Finally, it ought not to be forgotten that South Africa is clearly in illegal occupation of Namibia. It is the South African government to call into question the ability of the United Nations, as Namibia's legitimate authority, to fairly monitor and control an election?

Yours,
SHAPUA KATKUNGA,
South West Africa People's Organisation,
185 North Gower Street, NW1,
March 4.

Press curb proposal
From the Editor of The Star
Sir, The advocate Sir David Napley, former President of the Law Society (The Times, March 2) proposes under which journalists taking on a role of monitoring and controlling them. The "control" exercised would amount to the United Nations Secretary General's Special Representative having to satisfy himself that South Africa's running of the elections is in fact fair. What serious newspapers really ought to turn their attention to is South Africa's own very evident partiality and therefore whether the regime can be trusted to run

and a printing machine. To circumscribe his rights is to diminish the citizen's.

Alternatively, to discriminate between what the journalist and the citizen may each lawfully do and say is not only intolerable but presents interesting problems of definition.

What distinguishes the new thinking in European peace movements is this. First, we are pressing our own governments to move out from under the superpower deadlock and engage in direct initiatives (initial measures of disarmament) and negotiations. The position now is absurd. Even for negotiations to start on European "theatre" weapons "in a manner which could scarcely concern European" more we must wait upon the whims of the US administration—an administration which, after seven years of negotiation, has torn Salt II up. And, even then, there will be no European say at the table. If we wish to get anything done, then our statesmen must go to Warsaw, Budapest and Moscow, not to Washington.

Second, we see the only possible hope of avoiding a terminal nuclear collision in a strategy which begins to break down the hard edges of both blocks, and which begins to mend the fissures of Eastern and Western Europe once more. We wish to bring the peace movement of the West and the movements making for democracy and civil rights in the East into a common alliance—or, at least, a mutual understanding. In our view, the old Scylla and Charybdis today is being propped up by Western missiles: it is the menace of "the West" which strengthens militarism in the East, which legitimizes the old ideologies, and which prevents difficult social transitions from being made—or which, as in Poland today, limits the space for such transitions. Hence the END appeal. Insisted, from the first, that more open communication and exchange between persons and movements in East and West is a necessary condition of our work.

No one supposes that any of this could be easy. Nor that it could be without risk. It is a barely possible strategy, and there will be risk all the way. But those who have taken a steady view of the risks inherent in our present predicament—and who have weighed the sombre arguments of Sir Martin Ryle's recent book—consider that it is the only risk which still carries human hope; and that it is worth throwing all that is affirmative in European culture into that effort. The effort is not one of "unilateralism" in the sense that you suppose—one nation, opening out, to the six figures of "multilateralism"—a rolling campaign of reciprocal initiatives by one nation and then another, accompanied by popular movements, personal exchanges, and direct diplomacy. And I think that END and CND (which has been actively associated with us from our initial appeal) share this common perspective.

Yours, etc.
F. P. THOMPSON,
European Nuclear Disarmament,
6 Endsleigh Street, WC1.

From the Editor of The Star
Sir, The advocate Sir David Napley, former President of the Law Society (The Times, March 2) proposes under which journalists taking on a role of monitoring and controlling them. The "control" exercised would amount to the United Nations Secretary General's Special Representative having to satisfy himself that South Africa's running of the elections is in fact fair. What serious newspapers really ought to turn their attention to is South Africa's own very evident partiality and therefore whether the regime can be trusted to run

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Finally, it ought not to be forgotten that South Africa is clearly in illegal occupation of Namibia. It is the South African government to call into question the ability of the United Nations, as Namibia's legitimate authority, to fairly monitor and control an election?

Yours,
SHAPUA KATKUNGA,
South West Africa People's Organisation,
185 North Gower Street, NW1,
March 4.

Civil servants' sense of grievance

From Mrs J. Taylor
Sir, It is significant that the letters you print today (March 3) condemning the backing by the First Division Association of the Civil Service unions' campaign regarding pay are from retired members.

Conditions in the Civil Service are not what they were—there is greater pressure of work, greater frustration, inevitable comparisons with far more generous payments to civil servants in other grades, the present claim for 15 per cent with a 40 per week minimum underpinning. If it is seriously being suggested that civil servants should be expected, in that capacity, and out of loyalty and dedication to accept annually the amount the government of the day deems fit to pay, then we really do live in different worlds.

It is our responsibility as Civil Service trade unionists to defend our members against unfair treatment and the arbitrary breaking of agreements. Such treatment does not earn loyalty, and it becomes a matter of the First Division Association whose era the popular image of the relatively overpaid, bowler hatted and pin striped civil servant was substantially correct, to expect the modern civil servant to be anything but outraged at the treatment we are receiving. It is quite clear to us all that if this government or any other can tear up our pay agreement and get away with it, then no other agreement is worth the paper it is written on.

That is why we are striking. Yours faithfully,
D. BAILEY,
29 Cecil Road,
Leicester,
March 4.

From Mr J. C. P. Riddy
Sir, I wonder if I am alone in noting with rapidly increasing surprise and indignation the flood of special pleading entered in your columns by civil servants and their agents on the theme of their 15 per cent pay claim and the machinery by which their pay is increased year by year?

I would find this articulation public relations exercise a little more palatable if a token comment had escaped these well-educated lips to acknowledge the fact that circumstances have changed very much for the worse since the systems they wish to preserve were invented; and that in the eyes of this humble mortal—and many others to whom I speak—it is as much civil servants as politicians who must carry the responsibility for the decayed situation in which our economy and our society find themselves.

Until the economy is in better shape civil servants do not deserve a rise of this greedy dimension, especially when set against the general weatherproofing protecting civil servants' conditions of service and pensions.

Yours faithfully,
J. C. P. RIDDY,
"Garth",
Fortingall,
Aberfeldy,
March 4.

Reporting black unrest
From the Vicar of Lewisham
Sir, The article by Lucy Hodges on the march from Deptford to Central London (March 4) was refreshing in comparison with the coverage of other papers for its balanced and fair presentation.

The impression given by the sensationalist press is that black young people are violent and violent. The violence that occurred last Monday is to be deplored, however provoked it, and can do nothing to help better community relations. The open youth centre attached to this parish, which has a membership of around 250 the majority of whom are black and about 60 per cent of whom are unemployed, ran a special disco to help the families who were bereaved and it raised £163 the week after the fire. This gesture, small compared with the enormity of the loss suffered by the families concerned, shows another aspect of the life of the young black people of Lewisham. This good news is worthy of publicity.

Yours faithfully,
DAVID GARLICK,
Lewisham Vicarage,
48 Lewisham Park, SE13,
March 4.

Things have been very much on the move, since these lines were set down in a spirit of sympathy. The firm attitude, which Britain has now found it necessary to take, in blocking the admission of Faroese fishing vessels to the Greenland waters and the North Sea.

The vulnerable island community in the North Atlantic is brought to face nothing less than a catastrophe, utterly dependent as it is on fisheries, including those in distant waters, as the minimum need of the islanders cannot be covered by the resources of the home waters alone.

Yours truly,
STEN BALLE,
Dr. Dahlstrø 11,
3800 Tórshavn,
The Faroe Islands,
February 21.

This may be true currently but agricultural prices do fluctuate and it is as well to remember that on the whole they have lain well below EEC prices so that excessive (to current demand) supplies have been produced in the community.

Lastly, no one would deny that the poor should be helped and that some agriculturalists may fall into this category. However, shouldn't policy help only the unfortunate—or are all farmers unfortunate? What critics of the CAP would argue is that, of all the possible policies one could think of to provide income maintenance, it would be just about the most inefficient of all.

Yours faithfully,
JOHN BEATH,
Department of Economics,
University of Bristol,
41 Bedford Square,
Bristol,
March 3.

Conundra
From Mr C. H. Jaques
Sir, The letter from Mr Wilson Longden (March 4) reminds me that the late Sir John Masterman once reported that a would-be entrant for Worcester College had, in an essay, described a certain *rade mæra* for anyone studying this subject.

Yours faithfully,
C. H. JACQUES,
2 Livingston Close,
Seaford,
East Sussex,
March 4.

substituted for the goods themselves?

And while on the subject of fire risk, I have found few more alarming sights than, at dead of night on some long oceanic journey, the sight of a hundred or two cigarette tips glowing through the smoky haze of a dimly-lit cabin. Many such passengers must be on the verge of falling asleep. Why there is no more cabin fires on board jetliners is a source of surprise to me.

Yours sincerely,
GERALD HENDRIE,
19 Madingley Road,
Cambridge.

THE TIMES BUSINESS NEWS

The upheaval
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US banking,
page 17

Flights
of
ingenuity,
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| |
|------------------------|
| ■ Stock markets |
| FT 100 496.2 down 3.8 |
| FT 100 496.2 down 3.8 |
| FT 100 496.2 down 3.8 |
| ■ Sterling |
| \$2.2040 up 75 points |
| Index 99.0 up 0.3 |
| ■ Dollar |
| Index 100.7 up 0.1 |
| DM 2.1360 up 5 points |
| ■ Gold |
| \$463.50 down 51 |
| ■ Money |
| 3 mth sterling 121-124 |
| 3 mth Euro \$ 161-164 |
| 6 mth Euro \$ 161-164 |

CBI calls for £6,000m state spending to boost growth and jobs

By Patricia Tisdall
Management Correspondent

An expansion of government spending by £1,500m a year for each of the next four years is being urged by the Confederation of British Industry as part of a strategy for economic recovery.

The £2-page document containing 50 separate recommendations is the creation of Sir Terence Beckett, the former chairman of Ford who took over as the CBI's director-general last summer.

"If we want to get this country moving we have to start giving industry some priority in the scheme of things," he said yesterday.

"If we let things go the way they are going, unemployment will continue to grow right through to 1985."

With unchanged policies, output would grow by less than 1 per cent a year up to 1985, unemployment would rise to 12.5 per cent, inflation would fall only slowly after 1981 and company profitability remain weak.

If the CBI plan were implemented, the economy would expand by 3 per cent a year, inflation would drop, and profits would improve.

"Our approach is based on an improvement in industry's performance together with increased funds from the Government partly from increased North Sea oil revenues and partly from savings. There is a very definite real need for industry to help itself and for the Government to recognize the plight the economy finds itself in," Sir Terence added.

The CBI also points to the fact that the Government's handling of the economy. "Our dissatisfaction is with the community at large," Sir Raymond Penneck, CBI president, said. "We're not seeking to bash any particular sector. We're all in this mess together and we all have certain things to do to put it right."

The employers stress that their proposals would not add to inflation. "We have taken great care that there will be no inflationary element in our programme," Sir Raymond said.

The CBI is also at pains to point out that its proposals are quite different from the £6,000m expansion asked for in the 1981 Trade Union Congress Resolution which was all planned for in the coming financial year.

The CBI document has been sent to the Prime Minister and to Cabinet ministers, including Sir Geoffrey Howe, the Chancellor. The employers say they have not so far had a reaction from the Government but expect a response will appear in next Tuesday's Budget.

Top of a list of "firm" proposals and the biggest single item of expenditure on the CBI's list is the abolition of national insurance surcharge. In its pre-budget submissions the CBI is asking for an immediate 2 per cent cut in interest



Sir Raymond Penneck: action needed to put things right.

rates. The document calls for the abolition of National Insurance surcharge by 1985.

It suggests that a total of £1,500m a year should go on major capital investment programmes including new roads, new sewerage systems and ventures like railway electrification, gas gathering pipelines and nuclear development.

Among suggestions which are likely to cause controversy among some CBI members is that of selecting special industry sectors for state aid.

The document suggests that £750m could go to "sunrise industries" with the best growth and profitability prospects. Examples of industries cited by Sir Terence as likely candidates for government support include genetic engineering, biotechnology, telecommunications, office equipment, aerospace and oil exploration.

"We have not been very successful at picking winners in the past, but other countries do it and there is no reason why we cannot in the future," he said. "The alternative would be to allow laissez-faire policies to take their course and cut interest rates, business costs and taxes. But the risk then is that the resources would be spent on consumption and imports and it would not lead to the investment we need."

If endorsed by the CBI's policy making council, such a move would represent an important shift in CBI thinking and would also involve a change of emphasis by the Government. The strategy points out that if we allow investment to fall any lower, future generations will be appalled at our lack of imagination and foresight in failing to take advantage of the opportunity presented by North Sea revenues.

CBI members are urged to decide urgently whether they wish the confederation and the Government to adopt a positive industrial policy along these lines.

"We must have the will to win, because if we do not we shall have increasing dissatisfaction stemming from increasing unemployment and continued poor performance almost indefinitely into the future," Sir Terence says.

Barclays reveal £300m aid to industry

By Ronald Pullen

A firm indication of the likely scale of financial support clearing a way for the extension to recession-hit British manufacturing industry came yesterday from Barclays.

The bank estimates that over the past year it has lent some £250-£300m which it would not stances but been "abnormal".

Mr Frank Dolling, a vice-chairman of Barclays, said that it was part of a conscious policy of helping businesses in trouble.

It has become clear over the last few months that the clearers have been playing a crucial

"industrial lifeboat" role to help companies through their financial difficulties.

In some cases, such as the assistance being given to the private steel sector, the help has become public knowledge but there have been dozens more schemes working behind the scenes. The clearers have also become noticeably more reluctant to push companies into the hands of the receiver.

Mrs Thatcher has already reminded the clearers that the Government expected "those who gain from high interest rates will use their fortuitously high profits to show confidence in basically sound established companies".

Mr Gordon Richardson, Governor of the Bank of England, also conceded in January this year that the Bank had been active in "bringing the interested parties together".

But the Bank has gone to great lengths to refuse suggestions that it has twisted the bank's arms and the Governor stressed in his January speech that it was a matter for the banks to judge how they can "properly continue to lend".

The clearers themselves see this role as their strongest argument for escaping the rumoured windfall profits tax in next week's Budget.

Just how wary the banks have become about this sort

of lending has been showing up in the bad debt provisions they have been announcing recently in the full-year results.

Barclays increased its charge for bad and doubtful debts in the profit and loss account from £155m to £130.3m for last year and while this also includes international lending, the increase in the United Kingdom operations was almost sevenfold to £69.6m.

The big jump was the bank's specific provisions from £25.5m to £102.9m which reflect loans the bank's management judge to be specially at risk.

Lloyds and National Westminster have already announced

big increases in their bad debt provisions.

Full year profits from Barclays for 1980 slipped fractionally from £529.4m to £523.5m although shareholders are to get a 20 per cent increase in their dividends.

As with the other clearers the domestic banking side has been hit in the second half by lower interest rates, the switch away from cheaper current account money, and a 31 per cent rise in staff costs.

In contrast to the rest of the country Barclays said yesterday that staff numbers rose 7 per cent last year.

Financial Editor, page 17

Ransome to close engineering factory

Ransome Hoffmann Pollard, the precision engineering group, is to run down its Northampton factory with the loss of 340 jobs.

The company's shares fell 4p to 79 1/2p.

The Northampton factory's main product is car water pump bearings. It has been on short-time working for more than six months as car sales have dwindled. Demand is now too low to keep the factory open. The strong pound is blamed for making the bearings uncompetitive in Europe.

The company is to transfer the Northampton factory's production to one of its other factories over several months. Ransome Hoffmann Pollard reported 1979-80 profits of £11m but Mr David Ewart, the chairman, said that poor economic conditions would drop, and have a severe effect on this year's first half profits.

Promoting Scotland

A new organization called Locate in Scotland will promote Scotland abroad, it was announced by Mr Robin Duthie, chairman of the Scottish Development Agency. It will be based in Glasgow and will have a staff of 20 drawn from the SDA and the Scottish Economic Planning Department.

Lucas action group

Staff and manual unions representing 17,000 Lucas Electrical employees have formed an action committee to fight company plans to close more factories and axe a reported 3,000 jobs.

£27m Korean order

Northern Telecom's subsidiary, Northern Telecom Korea, will receive a £27m order of telecommunications equipment to the Republic of Korea.

Mutual funds plan

The United States is considering imposing reserve requirements on money market mutual funds, which now have assets under management of almost \$100,000m (about £45,450m), as a means of assisting ailing savings and loan banks.

Microchip deal

Motorola, the United States electronics company, and the Israeli Philips group together with Signetronics, have signed a five-year agreement to collaborate on the development and production of a family of microprocessors.

Thai bank credit

The Export Credits Guarantee Department has backed a \$3m (£1.4m) line of credit for Thai Farmers Bank, to finance the export of British capital goods and services to Thailand.

Nissan site denial

Mr Nicholas Edwards, Secretary of State for Wales, has denied reports that Wales had already been selected as the site for a £200m car plant creating 5,000 jobs by Nissan of Japan.

Wall Street lower

The Dow Jones industrial average closed 5.82 points down to 964.62. The \$-DOR was 1.2279. The £ was 0.556016.

Little chance of full monetary base system despite strong support of Prime Minister

By Frances Williams

There now seems little chance that a full monetary base system of controlling the money supply will be introduced during the lifetime of the present Government.

Despite the strong support of the Prime Minister and Professor Alan Walters, her personal economic adviser, the advocates of a swift move to a monetary base system have failed to carry the day in the teeth of determined opposition from the Bank of England.

A monetary base system would involve trying to control the money supply by regulating the quantity of cash held by the banking system with the Bank of England, plus notes and coin in circulation, rather than by manipulating interest rates as at present.

The Bank of England says there is as yet no evidence that a monetary base system would result in tighter control over the money supply and, by increasing the volatility of interest rates, it would make financial management more difficult.

Instead Sir Geoffrey Howe, Chancellor of the Exchequer, will announce in his Budget statement on Tuesday a number of changes to the present system which will be "consistent" with a future move to control of the monetary base.

But he is not expected to announce a timetable for such a move. This effectively rules out the introduction of full monetary base control in the present Parliament.

The changes to be announced were foreshadowed in the Chancellor's mid-Budget statement on November 24 last year. They will include a target date by which the rule obliging banks to hold a fixed proportion of their liabilities in reserve assets with the Bank of England will be abandoned, a progress report on the development of a new measure of money M2 based on banks' retail deposits; and an indication of when Minimum Lending Rate will be abolished.

Sir Geoffrey had hoped to introduce these changes immediately after the Budget, but his early timing at the beginning of March turned out to have insufficient time for officials to work out all the necessary details.

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Professor Walters: argued against sterling M3

The Chancellor will present his monetary objectives for the coming year as "maintaining the broad thrust of the medium term financial strategy". But the objectives will be targeted on a range of monetary indicators, not just on sterling M3 as previously.

Under the medium term strategy, published at the time

of the 1980 Budget, sterling M3 (notes and coin in circulation plus banks' sterling deposits of United Kingdom residents) was projected to decline steadily from 7 to between 7 and 11 per cent in 1980-81 to between 4 and 8 per cent in 1983-84.

By contrast, narrower measures of money, such as M1 and the monetary base, have risen relatively slowly. The difficulty of controlling M3 has led some monetarist economists, including Professor Walters, to argue that it is not a suitable short-run target of monetary control, though it is still generally favoured as the best measure of money supply over the medium term.

The Chancellor may announce on Tuesday that the authorities will in future pay heed to the behaviour of a narrow measure of money, such as M1, as well as M3 when deciding short-run interest rate and other monetary control policies.

N Sea output revised downwards by 9pc

By Nicholas Hirst

Energy Correspondent

Estimates of N Sea output over the next few years are due to fall. Mr David Howell, the Secretary of State for Energy, answering a parliamentary question yesterday, gave a possible production to 1984 nearly nine per cent below figures of last July.

Production in the current year is expected to be between 80 to 95 million tonnes, which compares to actual production of 85.5 million tonnes during 1980 and an estimate of 85 to 105 million tonnes made in the Department of Energy's publication "Development of the oil and gas resources of the United Kingdom, 1980", known as the "Brown Book".

Output during each of the years to 1984 is similarly cut back. Production in 1982 is expected to be 85 million tonnes to 110 million tonnes, compared to last year's estimate of 90 million to 120 million.

In 1983 it is now expected to be 85 million to 115 million tonnes against 95 to 130 million tonnes, and in 1984 90 to 120 million tonnes compared to the earlier figure of 95 to 135 million tonnes.

The figures take no account of any depletion measures which may be ordered by the Secretary of State for Energy. Last year the Government announced that it would pursue a flexible depletion policy, aimed at preserving itself sufficient oil usage for as long as possible.

As a result of a 14.7 per cent in total petroleum use last year, the United Kingdom came very close to self-sufficiency in oil, a position which is likely to be achieved this year.

And to the recession should bring some increase in demand, but as long as output remains at the low end of estimates, it is unlikely that the Government will be forced to use its powers to cut back production from fields now producing.

Only towards the end of this period is any significant hump in production likely to occur, and then unless it is at the top end of estimates, output may not greatly exceed consumption.

So far, the only specific decision made on depletion by the Government is to delay the start-up of the British National Oil Corporation's Clyde field by two years. The effects of this decision will not show up until after 1985.

Accounting draft: An exposure draft on accounting treatment for petroleum revenue tax has been issued by the Accounting Standards Committee. The intention of ED 28 is to increase disclosure and harmonize treatment of the allowances and safeguards built into the Oil Taxation Act 1975.

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UK current account in surplus by £2,700m

By David Blake

Economics Editor

Britain had a £2,700m surplus on its current account last year, with the current payments position in surplus by £1,900m in the fourth quarter alone.

The 1980 surplus was almost exactly equal to the deficit on the current account which the Treasury predicted at the time of the Budget last March.

The surprise surplus on the current account was matched by huge capital outflows, particularly in the final quarter of the year when an identified total of £1,221m flowed out of the country.

Private investment overseas is estimated to have been £1,788m in the final quarter of the year, and British banks are thought to have lent about £900m in sterling to overseas customers.

Government abolition of exchange controls in 1979 was designed to encourage a capital outflow from the United Kingdom. One effect of this is to ease pressure for sterling to rise as a time when the current account is in surplus.

Britain's surplus in 1980 contrasts with a £1,600m deficit in 1979. The change is entirely explained by big improvements in our visible trade, as the amount received for exports rose and the level of imports fell.

Trade in invisibles recorded

a surplus of £600m, compared with £500m in the third quarter. In 1980 as a whole, the surplus on invisibles was £1,900m.

Trade in invisibles includes earnings on services such as the City and tourism and the transactions of the Government, which are dominated by payments to the European Economic Community.

There was a £1,818m surplus on the transactions of the private sector and public corporations in the fourth quarter. British oil companies earned a surplus from state of £87.2 at the start of 1980 to 10.1 at the end of the Bank of England's index, which sets 1975 as 100.

On the capital account, there was about £1,000m of portfolio investment overseas by United Kingdom residents in the fourth quarter, bringing the total for the year to about £2,800m. There were some offsetting inflows into Britain, though not on such a large scale as in 1979.

The earnings of British companies overseas in sterling terms were greatly influenced by the rise in the value of the pound, which went up from an effective rate of 87.2 at the start of 1980 to 10.1 at the end of the Bank of England's index, which sets 1975 as 100.

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Trade in invisibles recorded

Monopolies referral for ferry and hovercraft mergers

By Peter Wilson-Smith

The proposed takeover of Sealink UK, British Rail's cross-Channel ferry business, by European Ferries, its main competitor, has been referred to the Monopolies Commission.

The decision, which had been widely expected, was announced yesterday by Mr John Biffen, Secretary of State for Trade.

Mr Biffen has also referred to the commission the proposed merger between the

Swedish-owned Hoverlloyd and British Rail hovercraft.

Both decisions were in line with advice from the Office of Fair Trading. However, the referral of the hovercraft merger still gave rise to some surprise, and was immediately attacked by British Rail.

Mr Michael Bosworth, deputy chairman, described it as both a surprise and disappointment. "The poor financial results of the two companies are well known, and with the closure of

both operations a real possibility is the surprising fact a merger, which is the only sensible solution for the future of hovercraft services on the Channel, should be referred to the Commission."

In contrast European Ferries, which is owned by the Conservative MP, and which announced its proposed bid for Sealink last December after it became apparent that a merger of the hovercraft companies was being discussed, was

pleased that the hovercraft merger had been referred to the Commission.

Sealink is one of the British Rail businesses which have been earmarked for demotion when the Transport Bill becomes law in the summer.

Mr Biffen said yesterday that the Government's firm intention that a controlling interest in Sealink should be sold to the private sector.

"The decision to make the reference to the Monopolies Commission does not prejudice the question of whether a

merger will be against the public interest."

European Ferries has yet to make a formal offer, but a price on Sealink, but it allowed a merger would give the combined group an overall market share of about 60 per cent.

Over the past year, fierce rate-cutting and a drop in freight traffic have sharply reduced the profitability of the Cross-Channel operators and Sealink is understood to have made losses.

Chrysler cuts back to set up \$300m fund

From Frank Vogl

Washington, March 5

The ailing Chrysler Corporation is launching yet another cost-cutting effort in an attempt to develop a \$300m (£136.5m) cash reserve fund. The government's Chrysler Loan Guaranty Board has urged such a fund to protect the company against a sudden fall in new car demand.

The company's desperate plight could be eased for at least a short period by government action to restrict car imports from Japan, and Chrysler is lobbying hard for this. But there appears to be a deep split within President Reagan's cabinet on this issue and this source of aid for Chrysler appears in doubt.

Latest reports suggest that Mr Alexander Haig, the Secretary of State, and Mr Donald Regan, Secretary of the Treasury, oppose car protectionism.

But Mr Drew Lewis, Secretary of Transportation, and Malcolm Baldrige, Secretary of Commerce, as well as Mr Ray Donovan, Secretary of Labour, all support restrictions.

Mr Lee Iacocca, Chrysler chairman, told *The Wall Street Journal* that to raise some of the \$300m the company might sell its two aircraft, some land and unused buildings and raise perhaps \$50m through tighter controls on inventories and receivables.

The company went to "great lengths to strengthen its financial position recently to secure

government approval of \$400m loan guarantees, and finding the full \$300m for a cash reserve now might prove impossible.

It seems unlikely that Chrysler's employees, dealers and bankers, are going to be willing to make still more concessions.

The extent of the recent concessions is outlined in a letter to shareholders from Mr Iacocca. This points out that the United Auto Workers Union agreed to income reductions totalling \$622m for the period to September 1982 and that a further cut of \$161m had been made in staff costs.

In addition, Chrysler's major suppliers provided some \$72m of concessions, while lenders agreed to convert \$343m of debt into Chrysler preferred shares and will convert a further \$343m in the second quarter of this year.

The need for an emergency reserve fund to cushion the company against sharp falls in sales is underlined by developments at Chrysler in the final quarter of last year. In his letter to shareholders, the company's chairman noted that Chrysler was profitable in October and looked like making a fourth quarter profit.

"But in November and December a series of unexpected events suddenly devastated the 'United States market', Mr Iacocca said. He pointed to record high interest rates, double-digit inflation and falls in consumer confidence.

PRICE CHANGES

Rises

| | |
|-----------------|-----------------|
| Broken Hill | 10pt to 67 1/2p |
| Couch | 10pt to 163p |
| Hammerton & New | 10pt to 150p |
| Hammerton & New | 5p to 620p |
| Heath C.E. | 5p to 228p |

Falls

| | |
|---------------|-----------------|
| Bibby J | 10pt to 27 1/2p |
| De La Rue | 20pt to 640p |
| Gill & Duffus | 8p to 188p |
| Hobbs & Shang | 6p to 178p |
| Kirows | 7p to 52 1/2p |

THE POUND

| Bank | buys | Bank | buys | Bank | buys | Bank | buys |
|-----------------|---------|----------------|--------|----------------|--------|----------------|-------|
| Australia \$ | 1.96 | Norway Kr | 12.41 | Portugal Esc | 126.00 | South Africa R | 3.05 |
| Austria Sch | 34.90 | Portugal Esc | 126.00 | Spain Ptas | 194.50 | Sweden Kr | 10.62 |
| Belgium Fr | 81.25 | Spain Ptas | 194.50 | Switzerland Fr | 4.43 | Switzerland Fr | 4.43 |
| Canada \$ | 77.25 | Sweden Kr | 10.62 | USA \$ | 2.25 | Yugoslavia Dnr | 82.50 |
| Denmark Kr | 15.32 | Switzerland Fr | 4.43 | Yugoslavia Dnr | 82.50 | | |
| Finland Mkds | 9.45 | USA \$ | 2.25 | | | | |
| France Fr | 11.38 | Yugoslavia Dnr | 82.50 | | | | |
| Germany DM | 4.36 | | | | | | |
| Greece Dr | 116.00 | | | | | | |
| Hongkong \$ | 12.15 | | | | | | |
| Ireland Pd | 1.32 | | | | | | |
| Italy Lit | 2348.00 | | | | | | |
| Japan Yr | 482.00 | | | | | | |
| Netherlands Gld | 5.36 | | | | | | |

BY THE FINANCIAL EDITOR

Barclays slows overseas

Full-year figures from the clearing banks are springing fewer surprises on the analysts than at the interim stage when sharply higher bad debt provisions and the hanging deposit mix away from cheaper current account money upset the rosier forecasts.

Given its increased exposure to British manufacturing industry Midland could still upset the apple cart but for the time being Barclays, the third of the clearers to report, as turned in results mid-way between Lloyds and Nat West.

After the better than expected first-half gain of 13 per cent, pretax profits slipped 4 per cent to £244.4m in the second half against 4 per cent at Lloyds and 18 per cent at Nat West to leave full-year profits slightly down at £523.5m.

Upsetting calculations has been the dull performance of Barclays Bank International particularly when compared with the more buoyant overseas contributions at Nat West and Lloyds. Up by a quarter in the first six months, BBI's pretax profits in the second half slipped marginally to leave the full year up from £137.7m to £159.5m.

With the South African subsidiary accounting for some £9m of this £22m gain, it seems clear that the group's expanding United States operations have had a lacklustre time although adverse exchange rates depressed profits.

Otherwise the domestic side has been hit by the same factors as at the other clearers with lower interest margins, sharply higher specific provisions and the rise in interest-bearing deposits contributing to an 11 per cent drop to £290.5m in the parent bank's pre-interest contribution. Indeed, Barclays seems to be taking a more nervous stance towards debts with the overall charge to the profit and loss account rising from £55m to £130.3m concentrated mainly in specific provisions in the parent bank, raising important questions for shareholders and depositors that their money could be being used to fund increasingly risky lending to United Kingdom industry.

Historical profits for the clearers are inevitably on the way down but if inflation bates the monetary working capital adjustments could well result in higher current profits this year. At the moment Barclays dividend, where the 20 per cent increase on the enlarged capital is par for the course, is covered nearly three times by CCA profits and the free capital ratio of 4 leaves scope for balance sheet expansion, although the 61 per cent yield at 406p reflects its premium rating in the sector.

The full balance of payments figures for 1980 put the net outflow on capital account at £1,231m, compared with an inflow of £82m (before a positive balancing item of £2,358m) in 1979. A feature of this turnaround was the increase in United Kingdom portfolio investment overseas from £888m to £2,776m.

Although a good part of this occurred in the second half of the year, it must be assumed that there must still be plenty of money that will cut and run in the event of a substantial United Kingdom interest rate reduction. While that map have a direct contractionary impact on the money supply, it is unlikely to make life any easier for the monetary authorities or investors at the longer end of the gilt-edged market.

Davy Corp Potential remains 'excellent'

To read Davy Corporation's interim statement one would never guess that it is under assault from the United States Enserch Corp, the bid having been referred to the Monopolies Commission earlier this week. There is no mention of either fact.

Profits, though, are much better than expected and are up by a third so far to just over £6m on slightly reduced turnover.

The group's potential, says Davy looking over its shoulder perhaps, remains 'excellent', and the balance sheet remains strong.

A point of course is that it all looks defensive—and reasonably so—but it is worth remembering that in normal circumstances plant contractors like Davy, who are by their nature involved in long-term work, would be anxious to point out that interim figures are often misleading and

should not necessarily be taken as an indication of the outcome for the year. However, despite the recession, Davy has indicated better profits and the interim dividend is held. All of which—along with the possibility that the Monopolies Commission might allow an Enserch bid—helped the shares up by 4p to 152p.

Euro Ferries Sealink

Nothing ventured...

Much scepticism greeted last December's announcement from European Ferries that it wanted to bid for Sealink.

It is no surprise then that the proposal has been referred to the Monopolies Commission given the market muscle a merger would create but European Ferries can be more than satisfied the proposed merger of



Mr John Biffen, Secretary of State for Trade: his third important Monopolies reference.

the two ailing hovercraft companies, Hoverlloyd and British Rail's Seaspeed has also been referred.

European Ferries, whose profits from shipping probably more than halved last year from 1979's to £16.6m, would obviously like to buy Sealink to form a potentially highly profitable business with an almost unassailable market position.

But failing this the last thing European Ferries wants is the two hovercraft companies put together in a revamped form.

It is now awkward for the Monopolies Commission or the Government to justify the hovercraft merger but then say no to European Ferries. There is also thought to be some sympathy in the Government with the idea of allowing Mr Wickenden, who is after all a Tory MP and fervent free-market, to take over Sealink, especially as such a deal would be likely to raise more than a share price.

Either way Mr John Biffen, the Trade Secretary, may have a difficult choice with the outcome of his third important reference to the Commission recently.

The Commons' Treasury and Civil Service Committee (much helped by its band of academic advisers) has accomplished a major feat in producing its weighty dossier on monetary policy in the United Kingdom. Nor is the report any the less important for the fact that it states the obvious, namely that the objectives set out in the Medium Term Financial Strategy were over-optimistic and that greater flexibility of approach would be wiser in future. The Committee's investigation has been a thorn in the side of Treasury ministers and that, by and large, is no bad thing.

Where the committee refuse to be drawn collectively is on what might have been the outcome had the government pursued a true monetarist policy.

Obviously there are individual views on what might have happened, and they vary considerably. All that, however, is an area of speculation. What the report says, in effect, is that anything approaching a classical monetary policy cannot work in the United Kingdom given the imperfections and limitations of the market clearing mechanism. But while that situation cries out for a degree of fiscal and monetary flexibility, it clearly cannot be taken as an excuse for laxity. The question, once again, is whether monetarism alone is enough.

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Mutual funds and the upheaval in American banking

Frank Vogl

Washington

Money market mutual funds (kinds of unit trusts which specialise in investment in money market instruments) barely existed in America a couple of years ago; but now the volume of cash managed by them will soon reach \$100,000m. Brokerage houses and investment management institutions are becoming the big deposit gatherers in America and the banks are being left out in the cold.

The funds have grown so rapidly in size because they can offer a market-related rate of interest on deposits, while the arcane American banking laws severely limit the interest which the banks can pay.

Mr William Donoghue, the foremost analyst of money funds, puts it pithily: "Traditional savings accounts can be hazardous to your wealth," he writes. "Even the banks are admitting it, with double-digit inflation fueling the interest rate roller-coaster, letting your cash sit in an ordinary savings account is like buying tickets on the Titanic."

For investors the funds are a hedge against inflation; for the fund managers the key to a new prosperity; for the banks they are a nightmare; and for bank regulators, and indeed for the controllers of the money supply, a headache.

In Utah, Georgia and other states the legislatures are now considering bills to restrict the funds and thereby protect the local banks. In Washington, too, congressmen are promoting bills to curb the funds.

Representative Jim Leach of Iowa, for example, argues that the funds are a threat to the Federal Reserve Board. They

are, he says, "particularly damaging to small rural-oriented financial institutions."

The funds are not subject to ceilings on interest rate payments, while the banks are. They can rather deposits across the country, while banks are allowed branches in only a single state. Not only are the funds changing the money management habits of large numbers of Americans, but the number of fund shareholders now in excess of five million, but they are serving as a major stimulus to what could well be the greatest banking reforms in the United States in half a century.

Most money market funds are set up as independent companies investing in short-term money market instruments and paying out all their earnings, except for expenses, to their shareholders. Normally, they contract with a separate entity, the investment adviser, who manages the fund and earns roughly a half of 1 per cent of total fund assets.

There is no front-end commission loading when a shareholder joins a fund and interest is compounded daily. To make the funds attractive many managers offer shareholders the opportunity to write cheques against their deposits in the funds in much the same way as cheques can be written against a bank account. The minimum deposit can be \$1,000, or even less in some cases.

Some funds are organized by mutual fund companies, such as the New York Dreyfus Group, while others are run by the big brokerage houses like Dean, Witter, Reynolds, and some are run by specially set-up groups who sell shares only to selected investors, say large

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Flights of ingenuity...

Technology

London

The British Aerospace 146: illustrating new concepts in aerodynamics and production techniques.

Wings are more difficult to manufacture. Wing flaps and other devices can raise the "lifting power" of the aircraft, expressed in terms of the maximum lift coefficient, or the ratio of the lift of the aircraft to its drag. This in turn gives such benefits as shorter take-off and landing distances.

"Active controls" is the phrase used to describe the addition of automatic control of aerodynamic surfaces (eg, ailerons) so that abnormal flight loads can be eased and the stability of the aircraft can be augmented.

This enables the weight of the structure to be reduced, the wingspan to be increased, the rate of climb to be improved, and the fuel consumption in each case raising the flying efficiency of the aircraft.

In structures, significant weight savings are becoming possible through the adoption of advanced composite materials (such as carbon fibre) and, to a lesser extent, through improved light alloys. Carbon fibre composites can give typical weight savings of about 30 per cent.

On the existing A300 version of the Airbus, small parts of the aircraft have been made of carbon fibre and incorporated experimentally.

But of the aircraft whose structures are known, the new Lear Fan 2100—a seven-passenger, high-performance business

aircraft powered by two gas turbines driving a rear propeller—is the most daring. Its airframe is made entirely of carbon fibre. (Of those aircraft whose structures are not known, Lockheed's experimental military Stealth aircraft, intended to be virtually transparent to radar, is doubtless the largest carbon-

fibre aircraft now flying.) In the systems aboard the aircraft of today—electronics, air conditioning, de-icing, braking, electric and hydraulics—various specialized advances are contributing to better performance, greater reliability and economy.

Digital techniques, and in particular the ubiquitous micro-processor, are giving a higher degree of automation on the flight deck. The A320 Airbus will offer a radically new and more flexible presentation of flight information for the pilots, based on cathode ray tube displays in place of conventional instruments.

Fibre optics offer good potential for data transmission aboard the aircraft, with reduced electrical interference and increased safety.

Finally, the sort of advances in production that are taking place are well illustrated by

present practice on the BAe 146. "Improved production must begin at the design stage", Mr Borting commented. The main change in overall approach is a determined effort to simplify the structure, using many fewer parts (more of them machined, rather than assembled from "bent tin") and simpler connections.

Thus the airframe advances come together with the improved engine efficiencies. The refined wing designs, the new materials, the techniques of active controls and the more precise control provided by the automated systems—taken together with the parallel advances in engine design—can cut fuel consumption by about 25 per cent, compared with that of previous conventional aircraft.

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General Mining Union Corporation Limited

(Incorporated in the Republic of South Africa)

AUDITED CONSOLIDATED RESULTS

1980

Earnings per share increased by 75% against 1979 pro forma.

Dividends per share increased by 50%.

1980 Pro forma 1979 Actual

Group Income before Taxation (R million) 406.4 217.9 217.9

Group Income after Taxation (R million) 334.7 180.2 180.2

Attributable earnings (R million) 269.7 153.1 98.5

per share (cents) 343 196 235

No. of shares (million) 78.6 78.3 42

Dividends (R million) 117.8 41.3

per share (cents) 150 100

Net Asset Value (R million) 2,421.1 1,696.7 1,019.6

per share (cents) 3,035 2,135 2,428

No. of shares (million) 79.8 79.5 42

The 1979 pro forma figures show the results for that year adjusted as if the 1980 rights issue and the Union Corporation Scheme of Arrangement (whereby that company became a wholly-owned subsidiary on 26 March, 1980), had both been implemented on 1 January, 1979.

During 1980, when the average gold price was \$614 compared with \$309 in 1979, income from gold investments increased by 164 per cent to R116.8 million, whilst income from platinum rose by 148 per cent to R33.5 million and from industries by 62 per cent to R78.3 million.

The prospects for 1981 will be more fully dealt with in the Annual Report which will be issued by the end of March 1981. Under normal conditions and at an average gold price of \$500 the future holds prospects of reasonable growth.

DECLARATION OF DIVIDEND

NOTICE IS HEREBY GIVEN that a final dividend No. 113 of 100 cents per share in respect of the year ended 31 December 1980 has been declared payable to members registered at the close of business on 20 March 1981 and to holders of share warrants to bearer surrendering Coupon No. 113.

The dividend is declared in the currency of the Republic of South Africa. Payments from the United Kingdom office will be made in United Kingdom currency at the rate of exchange ruling on 7 April 1981, or on the first day thereafter on which a rate of exchange is available. In the case of non-resident shareholders, tax of 15 per cent will be deducted.

Dividend warrants will be posted on or about 15 April 1981.

The full conditions of payment may be inspected at the head office or the offices of the transfer secretaries of the company.

By Order of the Board

per pro General Mining Union Corporation (U.K.) Limited

London Secretaries

L. J. Baines

London Transfer Secretaries

Hill Samuel Registrars Limited

6 Grosvenor Place

London, SW1P 1PL

5 March 1981

Copies of the full preliminary announcement may be obtained from the London Office of the Company.

Business Diary: Bottom dollars • Reagan's Carter su rivor

Wallchart

I SUPPOSE I'M SPLITTING HAIRS...

...BUT IT SEEMS SOMEHOW WRONG TO ME...

...THAT THERE SHOULD BE ONLY ONE MONOPOLIES COMMISSION...

CLYDE

Stone Platt, the troubled textile machinery manufacturer, has turned to ICI for a group treasurer.

He is Ian Barr, 47, who has been with ICI for 20 years, latterly as a manager in the treasurer's department at ICI's headquarters at Millbank, London, where he specializes in North America and Mexico.

Neither Barr nor Stone Platt chairman Leslie Pincott was available for comment last night.

The appointment is seen as part of Pincott's retrenchment plan for Stone Platt. Pincott himself is a recruit from the Blue Chips, having been until three years ago a managing director of Esso Petroleum.

Pincott became chairman last November, taking over special responsibility for group finance with chief executive Robin Tavenner he is rounding off a period that has seen the sale of the pump and propeller divisions to concentrate on the textile and electrical business.

Barr used to be finance director of Howard Farrow, a builders in which ICI had an interest.

Jordans' latest survey of top Scottish companies updated from 1978, will disappoint readers expecting an exciting list of ethnic names.

Top of the profits list are those familiar beasts: Disch, Burmah Oil, Coats Patons, United Biscuits, for this is a list of the two largest of the 38,000 companies registered in Edinburgh, and trading where they will. Future editions may benefit from the Scottish company registration bulge of 1979-80, when the English registers went on strike and new companies flocked to sign up over the border.

The rash of new oil service companies erupting from Aberdeen are mostly still too small to show up in this survey, though if Star Offshore is any guide, graduation to the top 500 is no guarantee of success: Star turned round from a £195m profit in 1978 to a £3.9m loss in 1980.

Jordans says the survey indicates a better performance from Scottish industry than British industry in general.

Scotland's Top 500 Companies 1981, Jordans (£15).

Two British executives have been appointed corporate officers of Cummins Engine Co, based in Columbus, Indiana, the world's biggest independent maker of diesel engines.

They are John Macfarlane, 50, and Michael Howell, 33, who become respectively vice-president and vice-president of operations and vice-president of European sales.

Macfarlane, a manufacturing man, joined Cummins at its Shorts plant 13 years ago and will be responsible for the plant there, as well as those at Peterlee and his headquarters, Darlington.

Howell, a marketing man, joined Cummins only five years ago but has already served in the United States and Belgium, as well as in the United Kingdom.

He will be based at Cummins' London HQ and will be responsible for directing and coordinating the Cummins marketing strategy in the United Kingdom and Europe.

The biggest maker of diesel engines is Perkins, now part of the huge Canadian group, Massey Ferguson.

I am told that at a recent council meeting in the north of England a councillor suggested that the lake in a municipal park would be improved if it were to be graced by a gondola. Apparently, the mayor said: "Aye, that's a good idea. We could get two and breed them in Peto

Stock markets

All quiet as investors await Budget

Investors decided to close their remaining positions yesterday and wait for the Budget before making their next move and activity in the market dropped off sharply.

Dealers spent much of the time yesterday speculating on the Chancellor's proposals and trying to assess their immediate consequences. Nevertheless, in spite of the reduction in turnover, selling pressure was minimal and leading equities were left to trade in narrow limits. Most ended up all square on the day. This was reflected in the FT Index which, having been 0.4 down at 10 am, rallied to register a rise of 0.1 at 1 pm before closing 3.8 lower at 496.2.

The story was similar in Government securities where the new Treasury 3 per cent 1996 made its debut, encountering only light supply and closing unchanged at 569.3.

Elsewhere in longs, prices opened unchanged on overnight levels holding their own until after hours when falls of 1/2 were registered. At the shorter end, early losses of around 1/2 were extended to around 1/2 at the close.

The quiet conditions were also clearly mirrored among blue chips where jobbers complained about the lack of interest. Distillers led the way down with a 4p fall to 186p. But in spite of one or two nervous

offerings all the selling was contained. Glaxo fell 2p to 280p, Fisons 2p to 136p and Lucas Industries 3p to 141p. Thorne EMI fell 4p to 302p on adverse publicity and talk of a bearish broker's circular, which failed to materialize. ICI recovered some of its recent weakness, rising 2p to 252p, along with Metal Box, 4p higher at 184p.

Intriguing times for Reardon Smith. Brokers W. N. Middleton were said yesterday to be trying to place a line of about 100,000 'A' shares on behalf of a client at 175p. News of the deal saw jobbers on the defensive and the shares immediately plunged 16p at which point the bid was withdrawn. The shares eventually closed 10p lower at 168p.

but GKN dipped another 3p to 141p. Dealers report continued selling of shares in GKN with several hundred thousand changing hands in the last few days.

Lower profits and a reduced dividend saw Campari International drop 5p to 46p with Staffordshire Potteries falling 3p to 48p for a similar reason. Disappointing trade news also knocked 4p from Bogod-Pelepah 'A' at 15p, while Thomas Jourdan lost 2p to 91p and Comben 2p to 46p. Interim figures from J. Bibby trimmed the

shares 10p to 274p, while S & W Berisford eased 5p to 163p and Gill & Duffus a similar figure to 168p in sympathy.

Results lifted Mitchell Cotts 3p to 49p, Derek Crouch 10p to 153p, Kode International 8p to 293p and W. N. Sharpe 25p to 268p, in a thin market.

The full-year figures from Barclays Bank proved uninspiring and the shares held steady at 408p immediately after the announcement. However, they drifted 2p to 406p at the close in line with the rest of the market. Midland held steady at 335p, along with Lloyds at 323p, but National Westminster shed 3p to 365p.

Insurance shares also failed to generate any business following the figures from General Accident earlier in the week, which closed 2p off at 322p.

Commercial Union were 1p easier at 157p, GRE 4p lower at 342p and Royal 3p to 380p. But the weak pound continued to inspire the brokers with C. E. Heath 5p stronger at 228p, Minet Holdings 3p higher at 105p, Willis Faber 10p at 308p and Sedgwick Group 2p at 133p. Leading electricals held reasonably steady while speculative attention was focused on several second liners. Diplomat rose 5p to 180p, following recent figures, while Currys hardened 8p to 343p. Speculative support lifted M. L. Meyer 3p to 86p, A. Monk

3p to 30p, Amos Hinton 4p to 99p, Renwick 4p to 89p, Roberts Adlard 3p to 103p, Sangers 7p to 62p, Roban Group 15p to 140p, East Lancashire Paper 4p to 57p and Malakoff Berhad 11p to 151p.

Davy Corporation, where the Enniskillen bid has just been referred to the Monopolies and Mergers Commission, rose 4p to 151p.

Institutional investors appear to be taking a keen interest in shares of property and construction concern Crouch Group, whose shares have risen 6p this week to 156p. Word is that behind the "genuine" buying taking place someone is building up a stable stake, which might be the prelude to a full scale bid.

152p after figures while Ransome Sims added another 5p to 161p on the back of recent profits news. But F. Pratt slipped 1p to 113p over the recent sale of Bardsey's 12 per cent to the 500 Group.

Equity turnover on March 5 was £155.31m (19,807 bargains). Active stocks yesterday, according to the Exchange Telegraph, were J. Bibby, Cons Gold, Bardsey, Sangers, W. N. Sharpe, Reardon Smith Shipping, Thorne EMI, De La Rue, Muirhead, Unitech, Davy Corp, Bakers Household, Tomain Distillers, Doornfontein, Charter Cons, Home Charm, MAM's, Booker, McConnell, Royal Insurance, Derek Crouch, International, Willis Faber, Stenhouse, KCA International, Debenham's, S & W Berisford and Stewart Wrigleson.

Traded options: A total of 539 contracts were made yesterday. Consolidated Gold attracted 44, Commercial Union 15, ICI 10, Lloyds 32, Lasso three and GEC seven.

Traditional options: Dealers reported quieter conditions. Calls were made in Campari International at a rate of 6p, Debenham's at 7p, Double Eagle at 45p and Reardon Smith "A" at 32p and Double Eagle.

Plus were arranged in Lucas, Reardon Smith "A" and Arrow Chemicals. Doubles were completed in Reardon Smith "A" at 32p and Double Eagle.

First-half loss at Staffordshire Potteries

By Margaret Pagano

Falling demand, massive de-stocking and short-term working saw Staffordshire Potteries fall to a pre-tax loss of £595,000 in the six months to December. The interim dividend has been passed.

This collapse of profits follows the fall begun last year when profits went from £1.24m in 1979 to £312,000 in June 1980. The final dividend was passed. The interim dividend last time was 1.6p gross. In spite of increased sales of £8.4m, a trading loss of £119,000 was recorded before interest charges which nearly doubled to £476,000.

The losses were made entirely by the dinnerware division, which normally accounts for 50 per cent of sales 30 to 40 per cent of profits. The downturn in orders hit the group last spring and continued through the year. A three to four-day working week and de-stocking were introduced to rid the division of some £1m worth of stocks. Full production is now back at 95 per cent of the plants but de-stocking is expected to go on until April.

The division is now developing a "cook and serve" stone-ware range which should be in retailing outlets in four to five weeks.

Mr. William Bowers, the chairman, expects the losses will again be recorded in the year to June but believes that the group will be trading profitably in the last few weeks. The group's main priority has been to reduce working capital and this has helped to maintain the cash flow and contain borrowings.

Total borrowings, which last year increased from £2.45m to £3.6m, are now higher by £1,000,000. The assumption of dividend payments is being given priority and a decision over the final will be taken later in the year.

Commemorative ware for the royal wedding will be an additional filip to trade and the group has already two ranges in the pipeline.

Taunton Vale, acquired in 1979, has proved profitable

Bibby tops expectations with 11pc rise for year

By Rosemary Unsworth

An improved performance from edible oils enabled J. Bibby, the Liverpool-based agricultural and industrial group, to boost profits by 11 per cent last year.

Pretax profits rose from £9.7m to £10.8m, slightly above market expectations, while turnover climbed marginally from £188m to £189.9m in the 52 weeks to December 27. The group has also pushed up the final dividend by nearly 18 per cent to 7p gross, which, with the interim increase, gives a total improvement of 14 per cent at 10.2p compared with the previous year's 8.9p.

The share price, which at 284p before the announcement was close to its 12 month high, slipped 10p to 274p after the news, putting the group on a yield of 3.7 per cent.

Edible oils' contribution improved partly because the previous year's results were unduly depressed by the transport strike and because of the development of the group's oil seed crushing process. Productivity was also better and costs have been reduced.

The industrial side was also helped by the purchase of the 60 per cent of Sterilita equity that was not already owned. This hospital and laboratory supplies division has been expanded since the acquisition last year.

But the gains in that division were partly offset by a lower trading surplus from paper and converted products, which suffered from the industry's



Mr. Leslie Young, chairman of J. Bibby.

decline although packaging a lesser victim. Mr. Le Young, chairman, pointed out that margins in parts of operation had suffered although volume had held up. The rise in the value of sterling had helped the purchase of raw materials.

On the agricultural side which contributes nearly a third of group business, it was noted that production of seeds had produced a substantially higher return although the overall farm market has shrunk by about 10 per cent. New mills and oil capital investment was responsible for the upturn in the group's 90 per cent dominance of the rapeseed market had benefited from the division.

Turkeys, however, proved more difficult with French American birds keeping prices down, but Bibby's developer has processed turkey meat.

Pig production also had a successful year despite the fall in the price of the sausage and day-chick companies last year. Interest charges fell from £850,000 to £520,000 with a rowing down of £4m against about £6m in 1979.

Gencor doubles profit in first full year

By Michael Press

In the first full year since the merger of General Mining and Union Corporation into Gencor, the group earned pretax income of £406m (£233m), approximately double the 1979 outcome. The final dividend is 100 cents, making 150 cents in the previous year.

Much higher gold prices and better uranium sales were the chief reasons for the sharp increase. The average gold price received was \$614 an ounce, a rise of \$305. The directors say that it is impossible to predict the gold price this year, but

expect it to vary between \$450 and \$600.

Because of the merger it is difficult to make exact comparisons with the 1979 results. Gencor offers two sets of figures: the actual results achieved by the two companies, and a pro forma statement of what would have happened had the merger been effective from the beginning of 1979.

Actual profits and dividends in 1979 were £218m and 100 cents respectively. The pro forma position would have been £231m and 89 cents. The increase in earnings attributable to shareholders is the biggest change. The 1980 result was £270m, against an actual 1979 figure of £98.5m and a pro forma calculation of £153m.

Kode rise falls short of forecast

By Peter Wilson-Smith

The Government's moratorium on defence spending; reduced demand for computer peripheral equipment; impact of the release of the second half of the results, although pre profits for 1980, although per cent higher at 5.14m, short of the substantial

improvement the group is expecting last August. The results, the final dividend has been maintained, lean the year's total slightly up from 9.40p to 9.56p, to give a yield of 3.3 per cent.

Subject to economic conditions, Kode is reasonably confident about this year. Terry Darlow, the chairman, said that orders were high than a year ago. He said Kode was still looking for acquisitions but the right companies were hard to find. The group's cash balance was £78m at December 1979—up from the end of 1980.

A one-off release of deferred tax reduced the 1980 charge of £492,000 by £118,000. Because of this earnings share have risen from 17.4p 23.3p instead of 20.6p with the release. Reserves rose from £77,000 to £3.5m. Turnover rose from £8.5m to £10.4m.

Kode's main problem was Kode Ltd, the computer peripheral manufacturer, which made losses in the second half. Conditions remain difficult however, leasing and service of computer equipment is the components companies met or exceeded budget. The components side includes K which makes highly-technological printed circuits for the communications industry.

Campari International, a mass market leisure, camp and inflatable tent equipment group, is still in full production. In the seven months to December 31 pretax profits fell from £737,985 to £255,900. Turnover fell from £12.2m to £11.2m and the interim dividend has been cut from 2.7p gross to 1.3p. The shares fell 5p 46p.

Campari is expected to make around £600,000 against £931,000 in the year to March.

Briefly

Systeme Limited, the Leeds-based computer manufacturer, reports that Terry and Sime, of Edinburgh, have acquired on behalf of clients 36.18 per cent of Systeme's shares at a price of 26.51m—putting a value on the company of £18.8m. New investors include an independent investment company which recently obtained a quotation as a high-technology investment.

Family Investment Trust: Total gross revenue for the year to January 31, 1981, rose from £446,000 to £488,000. Total gross dividend, 8.57p (7.92p).

Law Debenham Corporation: Pretax income for 1980 up from £1.46m to £1.53m. Total dividend (gross) up from 9.28p to 10.35p. Hubbard and Kenning: Mr. Fred Marks, a Nottingham partner in chartered accountants Peat, Marwick, Mitchell & Co., has been appointed receiver and manager of Hubbard and Kenning, the old London-based knitwear company. Mr. Marks is trying to find a buyer for the company.

Bullfinch, the holiday camps group which is now owned by Rank Organisation, has bought the Grand Hotel at Llandudno from Trusthouse Forte. The price is not being disclosed.

Britannia Australian Performance Fund has been launched by Jersey-based Britannia International Investment Management Ltd., a member of the Britannia Group of Investment Companies. Fund, formerly Schindler Far East Fund and which is quoted on the London Stock Exchange, aims for long-term capital growth from a managed portfolio of Australian shares with emphasis on energy, mining and resource companies.

Business appointments
Director named for Sainsbury's
Sir James Spence has been elected to the board of Sainsbury's as a non-executive director. He is the first non-executive director to be appointed from outside the company.

Mr. C. C. Anthony Glossop, an executive director of Redman Heenan International, has been named chairman of Fielding & Platt, London-based investment and RHI's operating companies. Mr. J. Ramsey Spence, a non-executive director of RHI, has been appointed an executive director of RHI's main board, and chairman of its operating companies—Redman Fisher Engineering, Salt Engineering (Coventry), Merca Engineering, Redman Engineering, Precision Engineering (Worcester) and its subsidiary, Computer Graphics.

Mr. J. H. Nightingale & Co. Limited
27/28 Lovat Lane London EC3R 8EB
Telephone 01-621 1212
The Over-the-Counter Market

1980, 81
High Low Company Price Chgs Divs Yld P/E

75 39 Airsprung Group 63 — 6.7 10.6 5.7
45 21 Armitage & Rhodes 45 — 1.4 3.1 14.5
19 92 Ardington Hill 190 — 9.7 5.1 7.1
92 88 Beyer Services 92nd — 5.5 5.9 4.6
126 58 Frank Horsell 106 — 6.4 6.3 3.3
110 40 Frederick Parker 40 — 1.7 27.5 17.4
110 74 George Blair 74 — 3.1 4.2 4.1
110 59 Jackson Group 119 — 6.9 6.4 9.8
124 103 James Burrough 330 — 31.3 9.5 —
55 50 Scruttons 'A' 52 — 3.3 10.2 3.3
224 215 Torday Limited 216 — 15.1 7.0 3.7
23 10 Twinkl Ord 11 — — — —
50 69 Twinkl 15 'ULS' 72 — 15.0 20.8 —
106 35 Unilock Holdings 44 — 3.0 6.8 6.6
53 81 Walter Alexander 102 — 5.7 5.6 5.6
263 191 W. S. Yeates 260 — 12.1 4.7 4.2

Bank Base Rates

| | |
|--------------------|-----|
| ABN Bank | 14% |
| Barclays | 14% |
| BCCI | 14% |
| Consolidated Crdis | 14% |
| C. Hoare & Co | 14% |
| Lloyds Bank | 14% |
| Midland Bank | 14% |
| Nat Westminster | 14% |
| TSB | 14% |
| Williams & Glyn's | 14% |

* 7 day deposit on sums of £10,000 and under 11% or £50,000 10 1/2% over

Emirex to raise £10m in London

After the recent crop of North American drilling funds, a Middle Eastern oil exploration fund will be raising just over £10m in London next month. Mr. Kenneth Fellowes, an oil geologist living in Dubai, has been waiting for new concessions to open up in the Middle East for four years. Last year he stepped in to mop up what he could for his new company, Emirex.

Mr. Fellowes owns half of Emirex and investment house Emille has the rest. Now Charterhouse Capital and stockbroker Carr-Saunders have stepped in to work to raise further capital and apply for a Rule 163 listing.

European Banking ends year 26pc up

European Banking Company, the London-based consortium bank, owned by the EBIC group of banks, whose British member is the Midland Bank, has reported a 26 per cent increase

in pre-tax profits for 1980. It made £2.77m, as against £2.19m in 1979. Mr. P. E. Janssen, the chairman, says in his annual report that the improvement was achieved without significant expansion of the bank's medium-term lending.

Thomas Jourdan leaps 106 per cent

Thomas Jourdan, makers of trouser presses, children's bedding to special purpose machines, made a record 106 per cent increase in pre tax profits to £709,000 in the year to December.

Sales were also higher at £6.76m, and the final dividend has been lifted by 25 per cent to 5p gross, making a total payment of 7.5p gross for the year against 6p.

A £1.5m order to supply the Soviet Union with 40 inner tube splicing machines by Midland, the group's engineering concern, boosted profits in the year turning the loss last time

of £28,000 into trading profits of £329,000.

Approval sought for takeover of Inveresk

Shareholders in Inveresk will be asked at a meeting on March 30 to approve a scheme of arrangement enabling an agreed £7.1m bid for the group from George-Pacific of the US to go ahead. In offer documents detailing the 35p-a-share bid, the group's 1980 earnings are set at £200,000 after making a transfer to inner reserves. The gross dividend is held at 2.85p on increased capital.

Rea Brothers gives scrip

The board of merchant bank Rea Brothers proposes a one-for-five scrip issue. The net profit for 1980 rose from £501,000 to £750,000 after making a transfer to inner reserves. The gross dividend is held at 2.85p on increased capital.

Overseas interests lift Comben

Comben Group, the Bristol-based housebuilding concern, pushed up profits last year by 15 per cent but is maintaining its total dividend at 4p gross because of the present economic uncertainties.

Pretax profits rose from £5m to £5.75m and turnover was virtually static, going from £51m to £52.5m in the 12 months to December 31. Overseas earnings increased substantially during the period, rising from £336,000 to £1m, with about £700,000 coming from the group's French side and the balance from Portugal.

United Kingdom earnings before interest charges rose from £7.1m to £7.5m, while the increase in interest was £200,000 to £2.6m. Borrowings during the period rose from £8m to £12m although gearing remained at 50 per cent with increased equity.

New sites have been acquired in Houston, Texas, as well as three additional sites in Portugal and France. Comben hopes to complete 60 houses in the United States this year, 60 in Portugal against 44 and 70 in France compared with 54. The UK is expected to remain steady at about 1,500 units. The group, a 47 per cent associate of Carlton Industries, warns shareholders that the first-half results will not be as good as the second half, which stands to benefit from any cut in MLR next week.

The group's land bank also increased with the acquisition of 725 undeveloped plots with 142 under construction, from £501,000 to £750,000 after making a transfer to inner reserves. These sites are in Hampshire and East Anglia.

Coopers raise Whitley Bay stake to 27 pc

The husband and wife team from the north east, Mr and Mrs Claude Cooper, who announced a few weeks ago that they would like to bid for Whitley Bay Entertainment, yesterday increased their stake to 27 per cent.

They paid 300p a share. Some 77,500 shares were bought directly from shareholders in Whitley Bay, which is on the unlisted securities market, and the remainder were purchased in the market.

A spokesman from the Coopers stockbrokers, Wise, Speke, said that although they were instructed to buy up to 2 per cent the Coopers then decided to consolidate their position.

It is hoped that in three years Straits Trading will offer 28 per cent of MSC to the Malaysian public through a quotation on the Kuala Lumpur Stock Exchange.

Ford to repay loans

Ford Motor said in Michigan it expected to repay some of a \$400m (£192m) loan it recently obtained from its West German subsidiary. It will also repay \$800m borrowing from its British subsidiary within a year.

The loans from both units are the second in about a year. Such transactions with foreign subsidiaries are commonly used by multinational companies to raise cash.

S African contribution boosts Mitchell Cotts

By Catherine Gunn

Trading, transport and engineering group Mitchell Cotts reports interim pretax profits to December 31 of £3.58m, up by a fifth thanks largely to a full six-month contribution from the South African company Ciba Harris, bought in March, 1980.

Economic problems in Britain and Europe meant lower profits from these areas, while group interest costs nearly 29 per cent higher at £2.77m reduced the pretax figure. Group sales rose by 24 per cent to £16m.

The group's second-half profits are unlikely to repeat the overall interim increase, since six months of Clifford Harris's figures were included in the comparable second half of last year.

Possibly, with this in mind, the interim dividend has again been held at 0.94p gross. South Africa contributes roughly two-thirds of Mitchell Cotts's profits and last year brought in £7.97m (£4.4m) against £4.91m in Clifford Harris. Earnings from Clifford Harris, trading in South Africa, continues to be reasonably busy.

Mr. Philip Dunkley, chairman of Mitchell Cotts,



Mr. Philip Dunkley, chairman of Mitchell Cotts.

Australia is also looking better across the board. "The companies are advancing their position in the market generally", Mr. Dunkley said. In East Africa the joint estate companies, 49 per cent held by the group and 51 per cent owned by the Ugandan government, is now at the reconstruction stage. It will be "at least a year" before any contribution to group profits is seen.

MMC and Straits form tin smelting company

Malaysian Mining Corporation (MMC), which is 28.6 per cent-owned by Charter Consolidated, is to set up a new tin smelting company in partnership with Straits Trading.

Straits Trading, a subsidiary of Overseas-Chinese Banking Corporation of Singapore, will put its existing tin smelting interests into a new company, to be called Malaysia Smelting Corporation (MSC). MMC will then take a 43 per cent stake, worth M\$102m (£20m), in MSC.

It is hoped that in three years Straits Trading will offer 28 per cent of MSC to the Malaysian public through a quotation on the Kuala Lumpur Stock Exchange.

Ford to repay loans

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Ciba Geigy downturn

Ciba Geigy had a difficult 1980 with group net profit falling for the second consecutive year in spite of a 20 per cent increase in turnover, the company said in Basle.

The pattern of rising sales combined with falling profits was particularly characteristic of the dyestuffs, chemicals, plastics and additives sectors, Ciba Geigy said.

SUMMARY BALANCE OF PAYMENTS

| | 1974 | 1973 | 1980 | 1979 | | | | 1978 | | | |
|---|-------|-------|-------|---------|---------|---------|---------|---------|---------|---------|---------|
| | | | | 1st qtr | 2nd qtr | 3rd qtr | 4th qtr | 1st qtr | 2nd qtr | 3rd qtr | 4th qtr |
| Visible trade (balance) | -1573 | -3497 | +1177 | -1436 | -524 | -782 | -775 | -388 | -320 | +616 | +1268 |
| Invisible (balance) | +3123 | +3510 | +3753 | +832 | +816 | +889 | +923 | +877 | +941 | +1554 | +971 |
| Services | +1529 | +2098 | +2107 | +576 | +530 | +513 | +580 | +508 | +644 | +629 | +529 |
| Transfers | +220 | +1667 | +1520 | +744 | +322 | +673 | +213 | +458 | +232 | +224 | +616 |
| Total | +730 | +1630 | +2576 | +396 | +182 | +107 | +143 | +82 | +254 | +1150 | +1805 |
| Current balance | +730 | +1630 | +2576 | +396 | +182 | +107 | +143 | +82 | +254 | +1150 | +1805 |
| Current balance investment and other capital transactions | +3518 | +382 | +1490 | +353 | +322 | +121 | +374 | +455 | +218 | +62 | +1221 |
| Balance from | +1465 | +2263 | +68 | +1428 | +246 | -83 | +763 | +1342 | +107 | -789 | -325 |
| Current balance official financing | +1725 | +1710 | +1192 | +664 | +758 | +267 | +86 | +509 | +248 | +279 | +158 |
| Allocation of SGP's Official financing | +195 | +100 | +195 | | | | | | | | |
| Official reserves, borrowings on, + | +2329 | +1058 | +291 | +955 | 58 | -152 | +41 | | | | |
| | +103 | +248 | +108 | +76 | +690 | +145 | +1 | | | | |

Commodities

The Eurosyndicat index on European share prices was put provisionally at 153.19 on March 3 against 151.42 a week earlier.

Wall Street

New York, March 5.—Stocks on the New York Stock Exchange closed lower in moderate trading. The NYSE index fell 0.47 points and the average price per share 22 cents. The Dow Jones industrial average lost 6.82 to 222 and declines led advances to 715 as turnover slowed to 30,000 shares from 47,260,946 among the oils. Exxon lost 1 1/2 to 29 1/2. Standard Oil of California

Oil 43 to 210, Getty Oil
#1, Occidental 7 to 284

... International, however, reported 11 to 43%. It found a third of the natural gas zone in the U.S. well.

...max Incorporated was off 1/2% before a trading bid. Directly affected a \$7.50 share taken. A bid from Standard Oil of California valued at \$3,800.

...leader Clorox climbed 1/2%. Atlantic Richfield lost 1/2%. It expects a threefold rise in windfall profit tax this year.

...consolidated Freightways surged 1/2% to \$31. It will sell some cars to Daimler-Benz. Orion ended up 1/4 at 17 1/2 after

ld shares, termed as, b
s recovered from recent
Retailers were gen

US commodities

| | | | |
|------|------------|------------|------|
| 50- | 1,170.00c: | April | 1,18 |
| | 1,193.00- | 1,200.00c: | |
| 00c: | Sept. | 1,257.00c: | |
| 50c: | Jan. | 1,325.80c: | |
| 50c: | Mar. | 1,330.00c: | |

[illegible]

1.50c asked: May, 1
Sc: July, 124.50-124.75c;
0-125.00c; Dec. 124.25-12
A 123.75c; May, 123.30

asked; July. 123.00 bid-
asked.
SA futures. finished about mid.

| 1960 | 1961 | 1962 | 1963 | 1964 | 1965 | 1966 | 1967 | 1968 | 1969 | 1970 | 1971 | 1972 | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 | 2035 | 2036 | 2037 | 2038 | 2039 | 2040 | 2041 | 2042 | 2043 | 2044 | 2045 | 2046 | 2047 | 2048 | 2049 | 2050 | 2051 | 2052 | 2053 | 2054 | 2055 | 2056 | 2057 | 2058 | 2059 | 2060 | 2061 | 2062 | 2063 | 2064 | 2065 | 2066 | 2067 | 2068 | 2069 | 2070 | 2071 | 2072 | 2073 | 2074 | 2075 | 2076 | 2077 | 2078 | 2079 | 2080 | 2081 | 2082 | 2083 | 2084 | 2085 | 2086 | 2087 | 2088 | 2089 | 2090 | 2091 | 2092 | 2093 | 2094 | 2095 | 2096 | 2097 | 2098 | 2099 | 2100 | 2101 | 2102 | 2103 | 2104 | 2105 | 2106 | 2107 | 2108 | 2109 | 2110 | 2111 | 2112 | 2113 | 2114 | 2115 | 2116 | 2117 | 2118 | 2119 | 2120 | 2121 | 2122 | 2123 | 2124 | 2125 | 2126 | 2127 | 2128 | 2129 | 2130 | 2131 | 2132 | 2133 | 2134 | 2135 | 2136 | 2137 | 2138 | 2139 | 2140 | 2141 | 2142 | 2143 | 2144 | 2145 | 2146 | 2147 | 2148 | 2149 | 2150 | 2151 | 2152 | 2153 | 2154 | 2155 | 2156 | 2157 | 2158 | 2159 | 2160 | 2161 | 2162 | 2163 | 2164 | 2165 | 2166 | 2167 | 2168 | 2169 | 2170 | 2171 | 2172 | 2173 | 2174 | 2175 | 2176 | 2177 | 2178 | 2179 | 2180 | 2181 | 2182 | 2183 | 2184 | 2185 | 2186 | 2187 | 2188 | 2189 | 2190 | 2191 | 2192 | 2193 | 2194 | 2195 | 2196 | 2197 | 2198 | 2199 | 2200 | 2201 | 2202 | 2203 | 2204 | 2205 | 2206 | 2207 | 2208 | 2209 | 2210 | 2211 | 2212 | 2213 | 2214 | 2215 | 2216 | 2217 | 2218 | 2219 | 2220 | 2221 | 2222 | 2223 | 2224 | 2225 | 2226 | 2227 | 2228 | 2229 | 2230 | 2231 | 2232 | 2233 | 2234 | 2235 | 2236 | 2237 | 2238 | 2239 | 2240 | 2241 | 2242 | 2243 | 2244 | 2245 | 2246 | 2247 | 2248 | 2249 | 2250 | 2251 | 2252 | 2253 | 2254 | 2255 | 2256 | 2257 | 2258 | 2259 | 2260 | 2261 | 2262 | 2263 | 2264 | 2265 | 2266 | 2267 | 2268 | 2269 | 2270 | 2271 | 2272 | 2273 | 2274 | 2275 | 2276 | 2277 | 2278 | 2279 | 2280 | 2281 | 2282 | 2283 | 2284 | 2285 | 2286 | 2287 | 2288 | 2289 | 2290 | 2291 | 2292 | 2293 | 2294 | 2295 | 2296 | 2297 | 2298 | 2299 | 2300 | 2301 | 2302 | 2303 | 2304 | 2305 | 2306 | 2307 | 2308 | 2309 | 2310 | 2311 | 2312 | 2313 | 2314 | 2315 | 2316 | 2317 | 2318 | 2319 | 2320 | 2321 | 2322 | 2323 | 2324 | 2325 | 2326 | 2327 | 2328 | 2329 | 2330 | 2331 | 2332 | 2333 | 2334 | 2335 | 2336 | 2337 | 2338 | 2339 | 2340 | 2341 | 2342 | 2343 | 2344 | 2345 | 2346 | 2347 | 2348 | 2349 | 2350 | 2351 | 2352 | 2353 | 2354 | 2355 | 2356 | 2357 | 2358 | 2359 | 2360 | 2361 | 2362 | 2363 | 2364 | 2365 | 2366 | 2367 | 2368 | 2369 | 2370 | 2371 | 2372 | 2373 | 2374 | 2375 | 2376 | 2377 | 2378 | 2379 | 2380 | 2381 | 2382 | 2383 | 2384 | 2385 | 2386 | 2387 | 2388 | 2389 | 2390 | 2391 | 2392 | 2393 | 2394 | 2395 | 2396 | 2397 | 2398 | 2399 | 2400 | 2401 | 2402 | 2403 | 2404 | 2405 | 2406 | 2407 | 2408 | 2409 | 2410 | 2411 |
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هكذا آمن العمل

ACCOUNT DAYS: Dealings Began, March 2. Dealings End, March 13. 5 Contango Day, March 16. Settlement Day, March 23.
6 Forward bargains are permitted on two previous days

[illegible]

FINANCE IN THE ARAB WORLD

In 1978, the Western industrial nations breathed a small sigh of relief. The Opec countries' surpluses of foreign currency, which in the mid-1970s had looked likely to break the financial system, had dwindled. Falling real oil prices and rising consumption in Opec nations had reduced the collective surplus to only \$5,000m.

In 1981, the surpluses and the problems they pose for the world's financial markets are back with a vengeance. Opec countries are expected to have a surplus of about \$90,000m this year in spite of severe recession in the West. Morgan Guaranty, which was one of the more optimistic forecasters about prospects for raising the surplus down, now expects well over \$70,000m a year being added to the Opec nations' store of funds.

There is thus no getting away from the need to ensure that these surplus funds are managed properly. Nor would the commercial banks of the West, who have done well for themselves in many areas as a result of handling these funds, really want it any different. But there are growing pressures to change the nature of the operation, bringing in governments and international agencies such as the International Monetary Fund to bring some stability into the process.

These pressures will grow because of the nature of the recycling which has to go on. The money which belongs to Opec surplus countries such as Kuwait and Saudi Arabia is the mirror image of huge deficits in the West and in the developing nations. It is estimated that in 1981 the industrial countries will have a deficit of \$23,000m and developing nations one of \$82,000m. The developing countries are adding debts to a burden which is already too large for them to cope with. They already owe well over \$300,000m, which is equivalent to the surplus of the Opec countries.

lent to nearly a fifth of their annual national products. Many of them are already up to the limits of borrowing which banks will allow them. Others are able to get money only because the alternative is to declare them in default, something which banks are determined to avoid doing.

Although the commercial banks, led by the Americans, were remarkably successful at handling the recycling of money last time around, they will not be able to handle the Opec surpluses in prospect. On even optimistic assumptions, there will be a huge gap between what the developing countries need and what the commercial banking system will be able to deliver.

That gap will have to be closed in two ways. One is for the Opec countries to help the international agencies of the world to channel funds to developing countries. The IMF is working on a plan to raise nearly \$10,000m, either direct from Opec countries or in the international capital markets. It makes little practical difference which is done, since in the first instance the money will come from Opec governments directly in the second case it will come through the Euro-markets.

In either case, the borrowing will have to fit in with what has become the standard pattern for Opec investment requirements. The money has to be kept in a liquid form (or at least a large part has to be) and increasingly it has to be denominated in a form which exposes the country to less



Clerks at work in the Saudi Investment Bank, Jiddah. Right: a street money changer in Oman.

These Western private banks will continue to play a key role. The attraction to them is obvious. Handling Opec money is now an essential component of any bank wanting to have a successful international operation and it is international operations which have provided the growth and the profits in banking in recent years.

But for the Opec countries themselves, there are growing attractions in not wanting to be wholly reliant on foreign banks for expert skills and services. For example, although Saudi Arabia is a heavy user of Western banks (it is

reputed to have at least \$500m with each of the top 20 banks in the world), it has formed a major bank of its own to operate in Euro-markets. The Saudi International Bank is half owned by the country's monetary agency and half owned by international banks.

Over the past five years there has been heavy pressure on foreign banks operating in the country to become largely Saudi-owned joint stock operations. There has also been a growing dependence on offshore banking operations in countries such as Bahrain, which is rapidly developing into a regional

banking centre for the Gulf. Even some Saudi banks have set up such operations.

The two other main banks through which Arab countries are building a special presence in international markets are the Gulf International Bank (GIB) and the Arab Banking Corporation (ABC).

GIB is the older, with seven nations in the Gulf peninsula owning a capital in 1980 of \$120m. Although Kuwait is one of the members of the GIB consortium, it is also one of the prime movers in the ABC bank, which with a start building up banking capital of \$1,000m looks set

to become important in international banking. It has already made loans to Bahrain, Hungary and Brazil. A high proportion of the staff is likely to come from Western countries in the early stages, though the three owners (Kuwait, Libya and Abu Dhabi) intend to ensure that control remains firmly in Arab hands.

There is no doubt that ABC intends to make an impact in the world financial markets and it clearly makes sense that Arab countries which have large funds of their own to manage should start building up banking skills. In many ways, it makes more sense to seek to develop this, rather than the normal pattern with Western companies playing a management or a consumer role in the process.

The same could happen to a lesser extent in banking, with Arab banks and finance houses playing an increasingly important role in their own right on the world stage. Up to now, the Arab world has been more banked upon than banking in its dealings with the rest of the world. Slowly but surely that is starting to change.

David Blake
Economics Editor



The British Bank of the Middle East

A Member of The Hongkong Bank Group

Offices in

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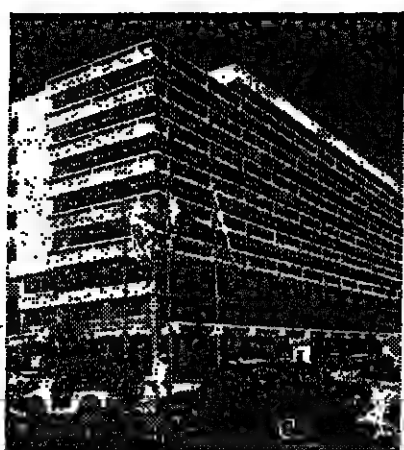
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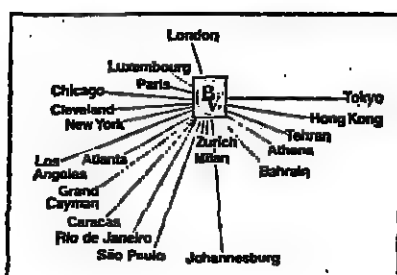
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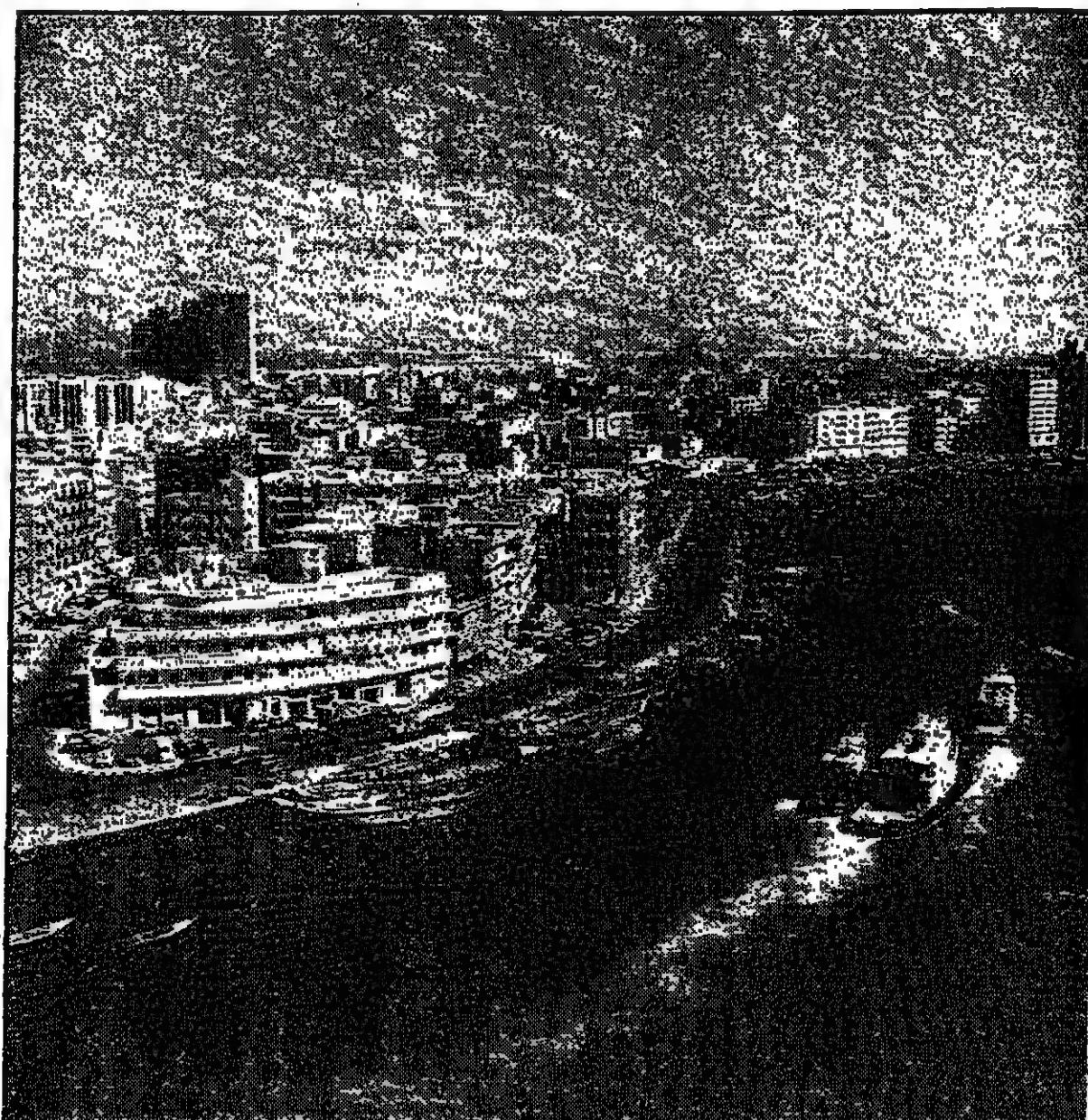
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Michael Prest finds the Arab banks' international growth still small, but asserts that their involvement will increase

Oil boom heirs seek to penetrate the US market

After almost 10 years of high oil revenues and burgeoning economies it is not surprising that Arab banks and bankers are found all over the world. Finance capital is international and, like their oriental and occidental counterparts, the Middle East bankers follow the business. In a sense Arab banks have to be more adventurous and aggressive in seeking custom. They are relative newcomers and do not have the powerful and intricate networks built up by western banks. Also there is an important and often overlooked distinction between recycling official funds and conducting private business. Recycling has largely been in the hands of the major international commercial banks which accept deposits from the central banks and monetary agencies of the surplus revenue countries. Arab commercial banks are not, in the main, big enough to handle recycling, but they are the economic and national representatives of the boom which oil has brought to their countries of origin. Developing economies need financial services, and merchants need money. Finance. As one kind of financial operation is not readily separable from another, and since banks grow and pay their shareholders only by competing, the Arab commercial banks have put up brass plates around the world. Until the quadrupling of oil prices in 1973-74, banking with and for the Arab world was chiefly carried on by the former imperial institutions: the British Bank of the Middle East, Grindlays, Standard Chartered, and their French equivalents. Since that turning point, the outward movement of the Arab commercial banks has gone through two stages, and is entering a third. The first stage was the founding at home of commercial banks to meet local needs. At the same time, existing and new Arab banks began to participate in consortium banks, a relatively safe way for Arab and western banks, and for Arab governments, particularly in the Gulf, to participate in the banking boom and gain valuable international experience. The consortium banks such as Union de Banques Arabes et Francaises (UBAF), Bank of Credit and Commerce International (BCCI), Frab Bank International, and Banque Arabe et Internationale d'Investissement introduced a generation of Arab bankers to the international markets. Some of these institutions preceded the oil revenue explosion of the mid-1970s, and many were heavily staffed and influenced by Lebanese bankers and businessmen fleeing from Beirut, hence the often strong French connexion. It was also a period which saw a general expansion of consortium banks, predominantly of such westerners set up as a way into the rapidly growing Euro-markets. A few of the better established Arab commercial banks, notably the Arab Bank itself, had offices outside the Middle East, London and Paris being the main centres. But the second half of the 1970s saw another trend: not content with domestic business, and anxious to make an impression commensurate with their wealth, the new Gulf commercial banks and semi-national ones such as the National Commercial Bank of Saudi Arabia, the National Bank of Abu Dhabi, the National Bank of Bahrain, and the Qatar National Bank opened offices abroad. The long-term aim of these banks is to put themselves on the same footing as the well-established European and American institutions, but a number of other companies with more limited aims appeared about the same time as well. Institutions such as the Banco Espanol, the Arab Hellenic Bank or the Saudi British Bank were started with joint shareholdings in participating countries. The capitalization of such ventures does not, on the whole, match that of the other commercial banks. Private investors were also looking for discreet ways of placing funds outside the Gulf. The big international banks and prestige merchant or investment banks play a role here, though in the latter case some Arab clients are suspicious of Jewish connexions. Regardless of whether these suspicions are justified, investors as rich as many merchants in the Middle East or members of ruling families in Saudi Arabia and the Gulf are looking to countries such as Switzerland and Luxembourg. Switzerland was especially attractive because of its tradition of secrecy, the strength of the Swiss franc, and its pivotal position in the gold trade. Luxembourg's function is different. It is much less restrictive than Switzerland, allowing many kinds of companies to register there. Quite a few basically private investment vehicles, such as the Arab International Trust, in which members of ruling families in the UAE among others have stakes, and the Arab Real Estate Finance and Investment Company, are also registered in Luxembourg. Many of these activities are several years old, but more recently Arab banks and investors have begun to look seriously farther afield. Founded in 1977 and based in Peru, the Arab Latin American Bank (Arlabank) is rather a pioneer. With 27 shareholders in 18 countries it tries to channel investment to Latin America. Arlabank has a Bal operation and at the end of last year acquired an 8 per cent stake in the Malaysian Development Bank and Arab-Malaysian Finance Berhad have much the same aims as Arlabank. A crucial part of the phase is penetration of the great market of the United States. Arab investors have been dogged with fortune when attempting to acquire American bank interests, as the long-run story of Financial Get Bankshares shows. But Arab banks or banks major Arab participants have set up offices, the additions being the National Bank of Abu Dhabi, the International Bank, and the National Commercial Bank of Saudi Arabia. Since American banks dominate the commerce and recycling businesses Arabs are partial to investment in the United States. In that country seems to be able despite the regular and obnoxious obstacles in its path. That would complete the process begun decade ago.



Dubai Creek and the imposing waterfront of the city, centre of internationally growing Arab banking.

Banks' impact in Europe is limited

In January, 1980, the international banking community was given notice of a new force in its midst. The Arab Banking Corporation opened in Bahrain, and announced that its authorized capital was to be \$1,000m. It is the most spectacular example of a trend towards bigger capitalization which has characterized Arab banks, particularly the consortium banks, over the past 18 months or so. At about the same time the Gulf International Bank raised its authorized capital by 150 per cent to \$270m. If one allows that banks can lend up to 15 times their paid-up capital, the ABC's muscle will be considerable. This is not before time. Arab banks are still small by international standards—none is among the top 150 and only a handful get into the list of 50 biggest Euromarket lenders. Moreover, many of these which do figure on the world scene are consortium banks, rather than ordinary joint stock banks. Consortium banks are a slightly strange breed. They arose during the late 1960s to cope with the heavy lending requirements of a rapidly expanding Euromarket. It was the first taste Arab banks had of the Euromarket and through their participation in Union de Banques Arabes et Francaises, Banque Arabe et Internationale d'Investissement, Frab Bank and the European Arab Bank, the potential importance of Arab commercial banks was first realized. ABC is somewhat different because its owners are all governments, whereas many of the 30 shareholders in UBAF, for example, are commercial banks, albeit with small stakes. The three shareholders in ABC are the Kuwait Ministry of Finance, the Libyan Secretariat of the Treasury, and the Abu Dhabi Investment Authority. Here ABC is following the example of the Gulf International Bank, established in Bahrain almost six years ago, in which the governments of Bahrain, Iraq, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates have 14.3 per cent each. No doubt the founders of ABC hope they will imitate the GIB in another respect too. GIB has become the leading Arab bank in syndicated loans, being the lead manager last year for loans valued at more than \$2,500m, including five syndications of \$500m. Although this is well behind the leaders, such as Citicorp, Chase Manhattan and Lloyds Bank International, it is a creditable performance. But GIB's ambitions do not end there. Its management, headed by Mr Abdullah Saif, the director general of the Bahrain Monetary Agency, wants to build up a bank capable of offering the gamut of services available from the big American and European banks. While ABC is already making its mark in the Euromarkets, other Arab banks are also moving steadily up the rankings. UBAF has enjoyed a strong position since its inception in the wake of France's realignment towards the Arab world in the late 1960s. UBAF's syndicated loan business is about four times bigger than GIB's, although the rate of increase has slackened in recent months, because Euromarket activity has been low. The other significant Arab presence in the Euromarkets is the Saudi International Bank. Established in London in 1975, the SIB is half owned by the Saudi Arabian Monetary Agency. The remainder of the equity is owned by the National Commercial Bank of Saudi Arabia (25 per cent), Riyad Bank (25 per cent), Morgan Guarantee Trust (20 per cent), and by Bank of Tokyo, Banque Nationale de Paris, Deutsche Bank, National Westminster Bank, and Union Bank of Switzerland with 5 per cent apiece. What is interesting about the ABC, GIB and SIB is the extent to which they are vehicles of national policy. Since they have substantial government stakes, they are in effect conduits through which governments with current account surpluses invest their funds. The Euromarket is just one aspect of international banking, although the looseness of the term conceals how much it covers. All these banks are also interested in trade finance, the bond markets, private business, and even cheque accounts. But it is helpful to draw a distinction between the quasi-government banks such as these discussed, with huge amounts of money to invest and potentially more, and private commercial banks which may also be in the Euromarkets but whose chief function is to make money for their shareholders. In so far as the "surplus" invested abroad by oil producers comprises funds owned both publicly and privately the impact on the international economy of public and private banks does not greatly differ. Nevertheless, the greatest of keep an eye on the ABC.

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FINANCE IN THE ARAB WORLD

Rodney Wilson looks at the long-term implications of the American

hostage crisis in Iran and the new role of the City of London

Faith in major Western banks has been shaken

The greatest boost to the development of Arab banking in recent years was undoubtedly given by former President Carter's decision to freeze Iranian assets as a result of the hostage seizure. Although that crisis is now ended, and the Iranian assets unfrozen, the American action has prompted considerable rethinking in Arab financial circles. There is little doubt it will have consequences for recycling strategy for a long time to come.

Faith in the most important Western banks in general as deposit takers, and United States banks in particular, has been fundamentally shaken. The Arab oil surplus states are now concerned to see a much larger proportion of their funds channelled through their own banks and financial institutions, rather than through foreign outlets over which they have little ultimate control. Even politically moderate Arab governments are concerned, while those with more hawkish tendencies are despondent that the so-called oil weapon no longer exists as a threat, as Western governments

could easily repeat the type of action taken over Iran. The vulnerability of assets held within the United States was always realized, but the shock for the Arabs was to discover that Euro-dollar and other Eurocurrency deposits held in American banks overseas could also be blocked. A crucial reason for the emergence of Euromarkets in the first place had been the fear by communist states in the 1950s that if tensions increased during this period of cold war, any dollar assets they accumulated might be in danger.

The communist world believed that deposits held in London or Paris, even those with American banks, were beyond the jurisdiction of American law and saw the payment of interest rates in excess of those prescribed by the Federal Reserve Authority, under regulation Q, as proof of this legal immunity.

As a result of the emotion engendered by the hostage crisis, many Arab banks wanted to comply with the spirit as well as the letter of United States law, possibly because of worries about

their public images domestically, but more likely out of genuine concern for the fate of the hostages. Thus they unilaterally decided to block Iranian deposits regardless of where they were located geographically.

The legality of this action has been the subject of much debate among international lawyers ever since, and the issue has still not been resolved, even though it matters very much in principle now than in practice, with the unfreezing of the assets. Action by two American banks, in particular, caused concern among the Arabs, and the London financial community generally.

First there was what was regarded as a precipitate move by Chase Manhattan in declaring a \$500m syndicated loan to Iran in default, as Tehran could not service the loan with its deposits frozen. Second the Chemical Bank in London sought an injunction to prevent the movement of Iranian funds within British banks because of liabilities owed to it by Iranian banks and institutions. It wanted to be the first to stake its claim.

This type of action alone was sufficient to cause Opec concern about the European as well as the American banks. This concern intensified as a result of the pressures put by the United States on the European members of Nato at the political level, as the Carter Administration sought supportive action by its allies in the hostage crisis. Those Arab countries which had never differentiated between the United States and Western Europe politically, had their worst suspicions confirmed, namely what they saw as a Western conspiracy taking place under the leadership of the United States.

Some states, at least, decided to deploy more of their assets in Far Eastern markets, and in decidedly neutral countries such as Switzerland, in case the ultimate fate might befall them as happened with Iran's \$9,000m worth of assets. There were some purchases of gold and other precious metals, although the Bunker Hunt episode served as a warning of the dangers in these markets. At the same time there was some reexamination of the

absorptive capacity of the Arab world itself.

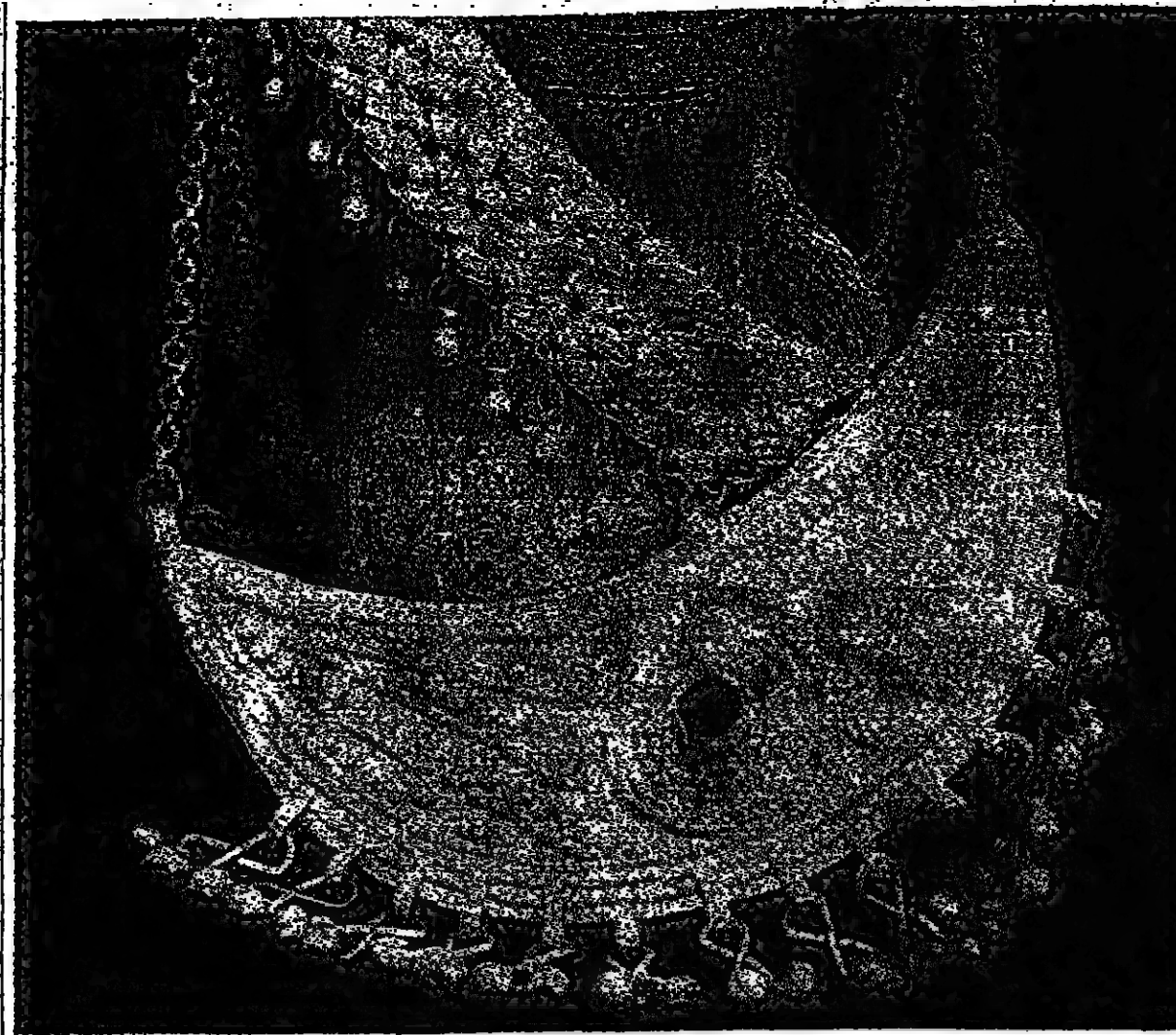
These options are only partial solutions however, as the magnitude of the Arab surpluses is such that the main reliance will continue to be on Western financial markets. Saudi Arabia, Kuwait and the United Arab Emirates have long realized this, but so also do Libya and Iraq, despite the repeated attempts to diversify their asset holdings. Nevertheless one precaution that can be taken is to ensure that as high a proportion as possible of their assets are channelled through Arab-owned and controlled banks.

Such banks still have to comply with the laws of the countries in which they operate, but at least they will also try to act in accordance with the interests of their countries of origin as far as possible. To some extent the behaviour of the most important American banks during the hostage crisis has taught Arab financiers a lesson. These institutions were supposedly multinational and believed to respond only to politically neutral market forces, yet ultimately they reacted with some degree of patriotic fervour. If American banks can act in this way, why not, it is argued, use Arab banks that can follow this example?

Banks from the Arab oil-surplus states have, therefore, started to strengthen their presence considerably in international financial centres, both by opening new offices, and up-grading the status of existing establishments from representative offices to fully-fledged branches. At the same time they are trying to diversify their range of operations, so that they not only merely redeposit funds with important Western banks, but seek out direct lending opportunities themselves.

There is a new willingness to hire Western bank staff, so that the shortage of skilled and experienced Arab banking staff does not slow the expansion process.

Dr R. J. A. Wilson, of Durham University, is a specialist in Middle Eastern economics.



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The crisis over, the American hostages prepare to board an aircraft for home at Rhein-Main air base.

Replacing Beirut as the money centre

Ever since the Lebanese civil war there has been much speculation about which city would replace Beirut as the centre for Arab banking. Today it seems there has only been one real heir to Beirut, and that is undoubtedly London. This new role for the city may appear surprising, but the figures speak for themselves, as London has a wider range of Arab financial institutions represented than any single Arab centre.

At present London has 25 Arab banks compared to 20 in Beirut, the other aspirant to fill the vacuum left after Beirut's demise. In addition the range of financial activities in which the Arab banks in the British capital are engaged is much wider than in any Middle Eastern financial centre. Bahrain for instance is essentially a money market centre, with the emphasis on so-called wholesale banking, whereas in London most of the Arab banks maintain full branch offices, involved not only in wholesale transactions through the inter-bank market, but also providing a complete range of retail services to both business and private customers.

The expansion of Arab banking in London has been especially marked since 1976, as before then only five banks were represented, including such old established institutions as the Arab Bank and the Rafidain Bank. These represented Jordanian and Iraqi interests respectively, as both of these countries had strong historical links with the United Kingdom, dating back to the time of the sterling area.

In the past four years however 20 further Arab banks arrived, 12 during the 1978 to 1980 period alone. Their

motivation in coming to London was not primarily to ease bilateral financial dealings between their countries of origin and the United Kingdom, but rather to participate in the buoyant Eurocurrency and Eurobond markets, for which London is the world's leading centre. At the same time they aimed to provide a full range of banking services for the increasing numbers of Arab visitors who had substituted London for Beirut, many of whom were the banks' own customers.

There are now sufficient Arab banks in London to categorize them into groups according to activities. First there are the banks representing individual Arab countries, which are privately-owned commercial institutions, such as Kuwait's Gulf Bank, the Jammal Trust Bank of Lebanon, or the Khalil Commercial Bank of Abu Dhabi. These banks act on behalf of clients in their countries of origin, although they also arrange business for British customers, most of whom are either involved in exporting to the country the bank represents, or in undertaking contract work.

In addition, as London serves as a financial centre for much of Western Europe, the banks may also be involved with continental customers from countries where the banks are not represented. Often when Arab banks decide to branch out overseas, but only wish to establish one foreign branch initially, their first preference for location is London.

A second type of Arab bank in London is the part or wholly state-owned institution, also representing single Arab states, such as the National Bank of Abu Dhabi, which is two thirds government owned, or the Qatar National Bank, half state owned. These not only handle business on behalf of their private customers, but also act for the governments of their countries of origin.

They arrange, for example, syndicated Eurocurrency lending in collaboration with other Arab and non-Arab banks in London, and find that having a London office brings them to the attention of potential lead managers in a way that would not otherwise have been the case. Some, such as the National Bank of Abu Dhabi, have a city office that specializes in this type of business, while providing ordinary retail banking services through an additional office in the West End.

In the final category of Arab institutions in London are the consortium banks, although these are much more heterogeneous in nature than the other two types. Some, such as the European Arab Bank or USAF Bank are joint venture institutions, usually with a large number of both Western and Arab banks included in the shareholders. They were created to bring together Opec capital with European or American banking knowledge, but London is only a secondary centre for such institutions, as much of the original inspiration for their creation came from the Paris banking community in the late 1960s in the wake of French government overtures towards the Arab states.

Of more significance in London are the joint Arab venture banks, such as Gulf International, which is jointly owned by the governments of Bahrain, Iraq, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates. Another Arab con-

sortium institution is the United Bank of Kuwait, which although wholly Kuwaiti, is owned by nine different banks and financial institutions, which decided to pool their resources for overseas operations.

The cautious Saudi Arabian banks adopted the same tactic by founding the Saudi International Bank which serves as a tentative post for the Saudi Arabian Monetary Agency in London, as it owns half the capital. Saudi International also represents the country's two major domestic banks, although the National Commercial Bank of Jeddah has recently established an office of its own.

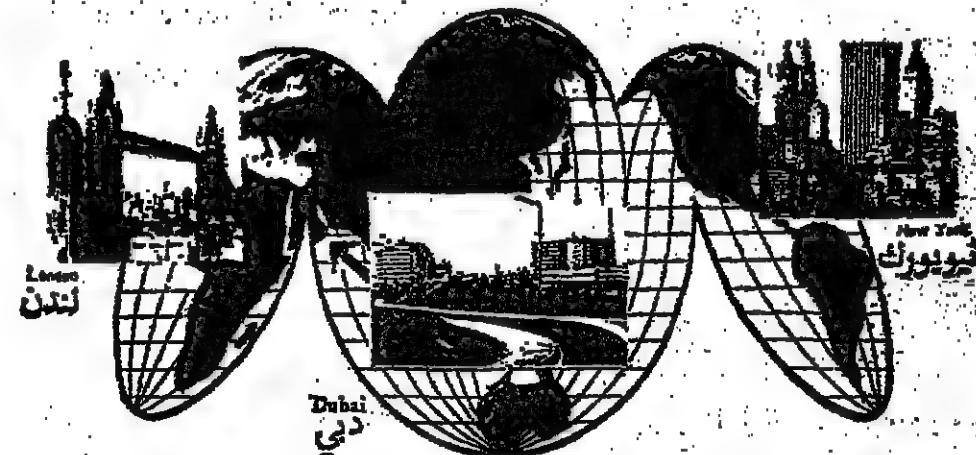
Undoubtedly the most active Arab bank in London is the Bank of Credit and Commerce International, which is largely owned by interests from the United Arab Emirates, Bahrain and Saudi Arabia, including members of the royal families of these states. Often regarded as the Arab world's foremost multinational business, it already has 26 London branches as well as branches throughout the north of England where it serves local Muslim communities. Many of its staff are Pakistani rather than Arab, but in London it accounts for a high proportion of the foreign exchange dealings by Arab visitors, and is a major force in ordinary retail banking.

It is ambitious to expand further in London and its branch network in the United Kingdom already exceeds its network in the United Arab Emirates, where hitherto it was most strongly represented. If present trends continue, it will not take long for other Arab banks to be in the same position.

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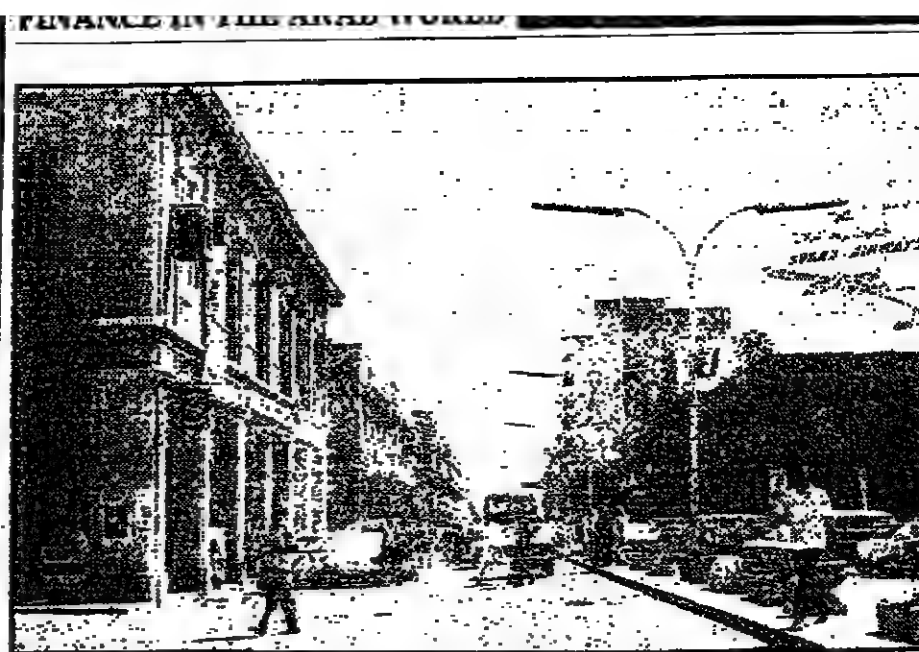
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Khartoum: most of the Arab Monetary Fund's financing has gone to Sudan.

Michael Prest traces moves to increase financial cooperation

Monetary fund fosters unity

Arab unity has been a cherished ideal for almost a century. But while political unity has proved elusive (a succession of appeals to pan-Arab sentiment and attempted unions of Arab states have enjoyed only a short life), a degree of financial and monetary cooperation, if not unity, is now developing.

In the vanguard is the Arab Monetary Fund. Modelled on the International Monetary Fund, it was established as the result of discussions by the Arab League's Council of Arab Economic Unity in Rabat in 1976. IMF officials helped to draw up its charter, which describes the AMF as an institution for giving multi-lateral balance of payments support rather than aid.

Behind this important distinction lie several ambiguous strategic objectives. The AMF is committed to encouraging Arab economic integration, promoting Arab money markets and working towards a single Arab currency. It also advises members on how best to invest their funds, particularly in foreign markets where their value is threatened by inflation and currency fluctuations.

The AMF's membership embraces all 21 country members of the Arab League and the Palestine Liberation Organization. As with the IMF, voting strength is proportionate to shareholding. So Algeria and Saudi Arabia, which have 750 shares each, are the biggest participants, followed by Egypt, Iraq and Kuwait with 500 each. The United Arab Emirates has 300, and Morocco, Qatar and Sudan took up 200 each.

Operating from headquarters in Abu Dhabi and run by Mr Jawad Hashim, a former Iraqi Minister of Planning, as president, the AMF also initiated the IMF by devising an accounting currency. Whether one sees the Arab accounting dinar (usually just called the Arab dinar) as another accounting device, like the special drawing right or European currency unit, or whether it should be considered the forerunner of an Arab currency, is debatable.

Nevertheless, the Arab dinar has found widespread acceptance, chiefly because loans are disbursed in hard currency although entered into the accounts as Arab dinars. Thus the AD is valued at three SDRs, but when at the end of last year Sudan faced a serious shortfall in its cotton crop, it received from the AMF a loan of \$20m to help it cover the balance of payments deficit.

In this sense the AMF is facilitating the flow of funds rather than advancing a new currency. Much of its financing, the biggest part of which has gone to Sudan, has been to maintain payments equilibrium between countries.

Low interest rates of between 3.75 per cent and 4.75 per cent have made AMF financing very attractive. But loans are not necessarily easy to raise. With an authorized capital of about \$1,000m, the AMF scrutinizes requests carefully. Automatic payments are made if they do not exceed 75 per cent of the borrower's subscription. An ordinary loan may be up to 225 per cent of the country's paid-up capital.

In more demanding circumstances the AMF can also make extended loans over seven years to ease structural balance of payments problems, and emergency compensatory financing, such as that to Sudan, can be given.

Although the number of AMF loans is small, the organization is already considering more ambitious plans. At its next meeting in April the board of governors is likely to examine a proposal for an inter-Arab payments system. This would be a big step forward in smoothing the flow of funds between members and within the Middle East. Under the scheme, Arab central banks would clear payments to each other through the AMF.

Such plans take time to mature, but one institution operating an elaborate regional programme is the Inter-Arab Investment Guarantee Corporation. Based in Kuwait, it is in some ways complementary to the AMF. While the latter provides assistance with balance of payments and currency, the former assures official and commercial providers of development aid.

The IAIGC was set up in 1975, almost a contemporary of the AMF, and has 19 members, who have subscribed about \$8m capital. Unlike the AMF, the insurance body's capital is undetermined, but the emphasis is on Arab cooperation and development. First among the IAIGC's priorities is insuring joint Arab projects and schemes encouraging Arab economic integration.

Investments designed to help a host country's individual economy will also be backed, and the corporation is prepared to examine projects which it regards as desirable but which might not come to fruition without a guarantee.

A wide range of risks and projects is covered. Agriculture, property, industry, tourism, and construction equipment have all received

the IAIGC's support. But the crucial importance of the corporation is that it takes on risks other than narrowly commercial ones. War and revolution, confiscation and nationalization, currency changes and restrictions on profit repatriation, and even bureaucratic delays can be covered. Willingness to assume these risks is partly a reaction against the caution of, and alleged high premiums charged by, Western insurers.

Not all the new bodies furthering Arab financial integration are public or quasi-government. Last March 100 Arab bankers gathered in London for the inaugural meeting of the Arab Bankers Association. The president of the board, which has 19 members, is Mr Bashir Zouhair, group general manager of the European Arab Bank. He also runs the Union of Arab Banks founded in Beirut in 1973.

The ABA is different because individual bankers rather than companies are members. It is more a kind of professional association, aiming to encourage expertise and standards among Arab bankers. It could additionally become an arbitrator, a role possible only if its integrity is accepted by all parties.

The private nature of the ABA is underlined by the fact that it grew up under the wing of the Arab British Chamber of Commerce, whereas the UAB developed within the Arab League. Moreover, Arab bankers working for non-Arab banks are eligible for membership. Unity may grow from the bottom up, rather than by constructing grand multi-lateral organizations.

Basic statistics

Top 50 Arab banks 1979 (\$m)

| Bank and country | Established | Assets |
|---|-------------|--------|
| National Commercial Bank—Saudi Arabia | 1928 | 1,175 |
| Rafidain Bank—Iraq | 1911 | 1,125 |
| Commercial Bank of Syria—Syria | 1867 | 1,067 |
| Arab Bank—Jordan | 1930 | 1,067 |
| Banque Nationale d'Algérie—Algeria | 1926 | 1,067 |
| Banque Extérieure d'Algérie—Algeria | 1967 | 1,067 |
| National Bank of Abu Dhabi—UAE | 1968 | 1,067 |
| National Bank of Kuwait—Kuwait | 1952 | 1,067 |
| Riyad Bank—Saudi Arabia | 1957 | 1,067 |
| National Bank of Egypt—Egypt | 1898 | 1,067 |
| Gulf Bank—Kuwait | 1969 | 1,067 |
| Bank of Credit & Commerce International—Luxembourg | 1972 | 1,067 |
| Alahli Bank of Kuwait—Kuwait | 1967 | 1,067 |
| Union de Banques Arabes et Françaises (UBAF)—France | 1970 | 1,067 |
| Libyan Arab Foreign Bank—Libya | 1972 | 1,067 |
| Banque Misr—Egypt | 1920 | 1,067 |
| Umma Bank—Libya | 1968 | 1,067 |
| Wahda Bank—Libya | 1970 | 1,067 |
| Commercial Bank of Kuwait—Kuwait | 1961 | 1,067 |
| Credit Populaire d'Algérie—Algeria | 1963 | 1,067 |
| Banque du Caire—Egypt | 1952 | 1,067 |
| National Commercial Bank—Libya | 1970 | 1,067 |
| Banque Arabe et Internationale d'Investissement (BAII)—France | 1973 | 1,067 |
| Saudi International Bank—UK | 1973 | 1,067 |
| Bank of Alexandria—Egypt | 1957 | 1,067 |
| Al Bank Al Saudi Al Fransi—Saudi Arabia | 1977 | 1,067 |
| Société Tunisienne de Banque—Tunisia | 1956 | 1,067 |
| Bank of Kuwait & the Middle East—Kuwait | 1971 | 1,067 |
| European Arab Bank Group—Luxembourg | 1972 | 1,067 |
| Arab Banking Corporation—Bahrain | 1950 | 1,067 |
| Gulf International Bank—Bahrain | 1973 | 1,067 |
| Qatar National Bank—Qatar | 1965 | 1,067 |
| Saudi British Bank—Saudi Arabia | 1978 | 1,067 |
| Burgan Bank—Kuwait | 1975 | 1,067 |
| Credit du Maroc—Morocco | 1963 | 1,067 |
| Al Bank Al Saudi Al Hollandi—Saudi Arabia | 1977 | 1,067 |
| Banque Intercontinentale Arabe—France | 1975 | 1,067 |
| Arab International Bank—Egypt | 1971 | 1,067 |
| Banque Nationale de Tunisie—Tunisia | 1959 | 1,067 |
| UBAF Bank—UK | 1972 | 1,067 |
| First Arabian Corporation—Luxembourg | 1972 | 1,067 |
| Arab National Bank—Saudi Arabia | 1979 | 1,067 |
| Union Méditerranéenne de Banques—France | 1975 | 1,067 |
| Bank of Oman—Dubai, UAE | 1967 | 1,067 |
| United Bank of Kuwait—Kuwait | 1966 | 1,067 |
| Arab Latin American Bank (Arabank)—Peru | 1977 | 1,067 |
| National Bank of Dubai—Dubai, UAE | 1963 | 1,067 |
| Bank of Bahrain & Kuwait—Bahrain | 1971 | 1,067 |
| Bank Al-Jazira—Saudi Arabia | 1975 | 1,067 |
| Saudi Cairo Bank—Saudi Arabia | 1979 | 1,067 |

UAE: restricted licence banks* foreign assets & foreign liabilities

| Period ending | Foreign assets (\$m) | Foreign liabilities (\$) |
|---------------------|----------------------|--------------------------|
| First quarter 1979 | 244 | 342.9 |
| Second quarter 1979 | 278.8 | 344 |
| Third quarter 1979 | 308.7 | 411.1 |
| Fourth quarter 1979 | 312 | 374.7 |
| First quarter 1980 | 321.1 | 414.9 |
| April 1980 | 329.5 | 465.3 |
| May 1980 | 326.7 | 447.1 |
| June 1980 | 378.9 | 484.1 |

* Restricted licence banks—first authorized in 1978—are permitted to accept local currency deposits from non-residents but otherwise operate as commercial banks.

Domestic commercial bank deposits

| | Demand deposits | Time deposits | Date |
|--------------------------------------|-----------------|---------------|-----------|
| Algeria (dinars m) | 28,412 | 9,084 | May 1980 |
| Bahrain (dinars m) | 129.68 | 239.10 | Sept 1980 |
| Egypt (£E m) | 1,072.9 | 3,176.9 | July 1980 |
| Iraq (dinars m) | 187.5 | 342.3 | June 1977 |
| Jordan (dinars m) | 214.28 | 348.53 | Aug 1980 |
| Kuwait (dinars m) | 1,950.7 | 974.4 | Aug 1980 |
| Lebanon (£Lib m) | 3,152 | 15,182 | Dec 1979 |
| Libya (dinars m) | 708.2 | 618 | Dec 1979 |
| Morocco (dirhams m) | 12,698 | 4,239 | Aug 1980 |
| Oman (rials m) | 64.2 | 165.3 | July 1980 |
| Qatar (rials m) | 2,068.8 | 2,530.9 | June 1980 |
| Saudi Arabia (rials m) | 32.84 | 12.24 | July 1980 |
| (plus 2.8 foreign currency deposits) | | | |
| Sudan (£Sud m) | 482.57 | 159.13 | Aug 1980 |
| Syria (£Syr m) | 5,552 | 1,765 | Dec 1979 |
| Tunisia (dinars m) | 490.73 | 460.36 | Aug 1980 |
| UAE (dirhams m) | 4,780 | 12,883 | June 1980 |
| Yemen, North (rials m) | 680.6 | 1,510.7 | Aug 1980 |
| Yemen, South (dinars m) | 53.05 | 38.99 | June 1980 |

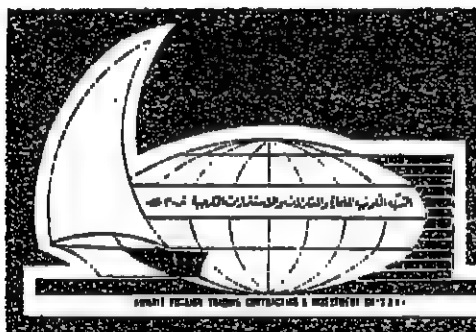
* Quasi monetary deposits
** Quasi monetary liabilities

Foreign exchange assets

| | International liquidity foreign exchange (\$m) | Central monetary authorities—foreign assets* foreign liabilities* | Commercial banks—foreign assets* |
|--------------|--|---|----------------------------------|
| Algeria | 3,437 | 14,172 | 3,920 |
| Bahrain | 904.6 | (May 1980) | (May 1980) |
| Egypt | 1,083 | 317.25 | 324.2 |
| Iraq | 1,211.3 | (Oct 1980) | (Oct 1980) |
| Jordan | 6,744.7 | (July 1980) | (July 1980) |
| Kuwait | 1,270.5 | (Sept 1977) | (Sept 1977) |
| Lebanon | 3,066.6 | (Aug 1980) | (Aug 1980) |
| Libya | 1,776.8 | (Oct 1980) | (Oct 1980) |
| Morocco | 10,914 | (Dec 1979) | (Dec 1979) |
| Oman | 294 | (Dec 1979) | (Dec 1979) |
| Qatar | 790.3 | (Aug 1980) | (Aug 1980) |
| Saudi Arabia | 318.4 | (July 1980) | (July 1980) |
| Sudan | 21,943 | (March 1980) | (June 1980) |
| Syria | 25,072—SAMA other assets | (April 1980) | (July 1980) |
| Tunisia | 24.29 | (Sept 1983) | (Sept 1983) |
| UAE | 1,716 | (May 1980) | (May 1980) |
| Yemen, North | 641.2 | (Aug 1980) | (Aug 1980) |
| Yemen, South | 1,952.6 | (June 1980) | (June 1980) |
| | 1,319.4 | (Aug 1980) | (Aug 1980) |
| | 233.67 | (Aug 1980) | (Aug 1980) |

* Expressed in local currencies

compiled by Anna Krajewska, Middle East Economic Digest



Kuwait Foreign Trading Contracting & Investment Co. (S.A.K.)

**1980—
a year of
continued
growth...**

financial summary 1980

| | |
|----------------------|----------------|
| Net profits | KD 6,043,000 |
| Total assets | KD 306,852,000 |
| Shareholders' Equity | KD 53,491,000 |

activity in international financial markets

We were manager of 23 bond issues and lead manager or manager of 11 syndicated loan facilities

other activities

In 1980 our pace of activity in the following fields of international finance continued to increase:

- growing role in international finance
- strengthening of portfolio management services
- expansion of real estate portfolio
- broadening of project management activity
- Management of bond issues
- Lead management of syndicated loans
- involvement in guarantee facilities
- participation in new investment projects
- provision of credit facilities within Kuwait

Kuwait Foreign Trading Contracting & Investment Co. (S.A.K.)

Established in accordance with Amiri Decree, dated 16th January, 1965

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New York 499 Park Avenue, New York, NY 10022

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Statement of Condition as at 31st December 1980 (Audited)

| | In BD,000's | |
|---|----------------|----------------|
| | 31st Dec. 1980 | 31st Dec. 1979 |
| ASSETS | | |
| Cash and Due from Banks | 141,278 | 69,567 |
| Loans, Advances and Overdrafts | 130,099 | 119,060 |
| Other Current Assets | 5,462 | 3,164 |
| Investments | 15,971 | 14,467 |
| Fixed Assets | 4,522 | 4,705 |
| Total Assets | 297,332 | 210,963 |
| LIABILITIES | | |
| Deposits | 266,242 | 189,554 |
| Other Current Liabilities | 11,085 | 5,197 |
| Total Liabilities | 277,327 | 194,751 |
| SHAREHOLDERS' EQUITY | | |
| Share Capital | 8,000 | 4,000 |
| Reserves | 12,005 | 12,212 |
| Unappropriated Earnings | 20,005 | 16,212 |
| Total Shareholders' Equity | 20,005 | 16,212 |
| Total Liabilities and Shareholders' Equity | 297,332 | 210,963 |

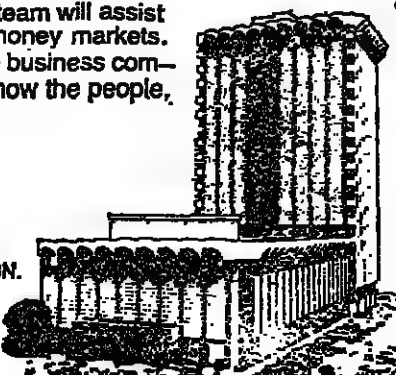
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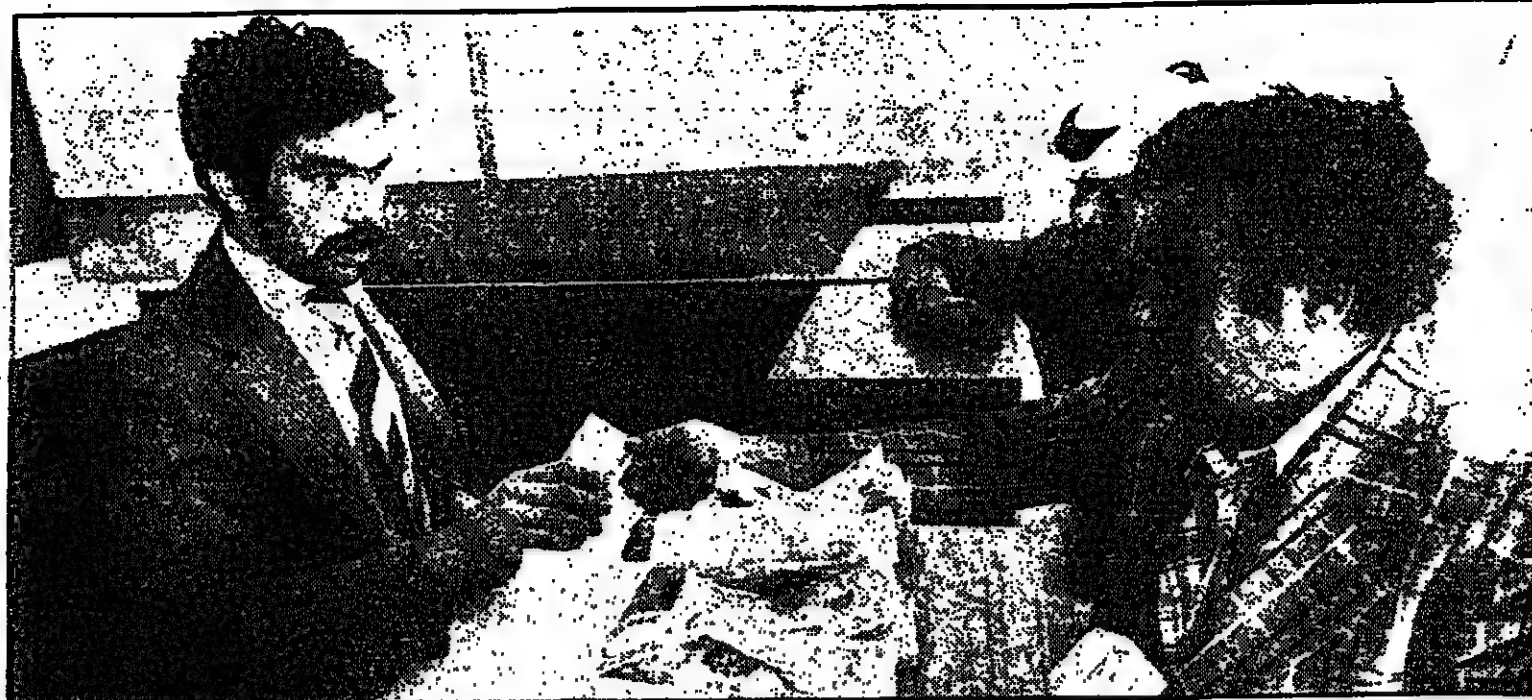
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We know the people, the market, the opportunities.



Offshore banking units looking forward to profitable year



After a period of uncertainty, Bahrain's offshore banking units (OBUs) are looking forward to a profitable year. Evidence that the sector has managed to weather the disruption caused by the Iranian revolution and the continuing war between Iran and Iraq, coupled with the announcement that Saudi Arabia's massive third development plan is going ahead, is producing a surge of quiet optimism.

But many bankers are still keeping a close eye on the end of 1976, the first full

year of operations. OBU assets totalled \$6,200m; a year later they had more than doubled, to \$15,700m. By the end of 1978, they were worth \$23,400m, a figure which meant that the Bahraini sector had almost achieved the same amount of business as its main rival in Singapore. Assets continued to climb, and by the end of September, 1980, they were worth a record \$33,600m, compared with just under \$27,800m at the end of 1979.

Altogether more than 64 banks are represented, from almost every part of the globe. Licences are issued by the Bahrain Monetary Agency (BMA), which insists on certain requirements such as the reporting of assets and liabilities to its board and assurances that the local unit has adequately qualified staff. OBUs are also prohibited from accepting deposits from resident Bahrainis, a measure the BMA has adopted to protect the local banks.

However, aside from these restrictions, the OBUs enjoy considerable privileges. They are exempt from corporate and personal taxes, do not have to maintain mandatory reserves, and operate free of any statutory liquidity ratios. In addition, the islands' excellent communications, progressive social attitudes (by Gulf standards), trained work force and location midway between Singapore and Europe, not to mention the surrounding oil wealth, give Bahrain advantages that few countries in the developing world can match.

However, the very attractiveness of Bahrain as an offshore centre is posing new problems for the established banks as the sector reaches maturity. Although they welcomed new entrants in July, 1979, that the BMA had imposed a moratorium on the granting of new licences, it soon developed that the BMA acted less to stem the rapid influx of new banks than to ensure a wider geographical spread of institutions.

Shortly after the ban was

lifted a few months later, new licences were granted to several Asian institutions, from Philippines, Malaysia, Hongkong and Japan. Arab banks were also encouraged to apply for licences and several have now opened OBUs in Bahrain. They include Al Bahrain Arab African Bank, the Bank of Bahrain and Kuwait, the Arab Solidarity Bank, the United Gulf Bank and the Dubai-based United Bank of Oman.

While the lifting of the ban was encouraging to those banks hoping to get a foothold in the sector, the older institutions were concerned that the entry of more than a dozen new banks would increase competition to the point that profit margins would be wiped out. By mid-1980 it was clear that their fears were not without foundation: the combined net spreads of the OBUs—the difference between what they earn on their assets and what they have to pay on liabilities—had fallen below 1 per cent, and were continuing to decline.

More worrying to the Western banks, and to the smaller Arab and Asian institutions as well, has been the arrival of two new Arab-owned "multinationals", the Arab Banking Corporation (ABC) and the Gulf International Bank (GIB). The former was established by emiri decree in January 1980 with an authorized capital of no less than \$1,000m of which \$750m was paid up.

Although ABC did not begin operations officially until June, Mr Abdullah Saudi, the chief executive, reported that assets had risen to just under \$2,000m by the end of the year. Total deposits reached \$1,500m, while the loan portfolio stood at \$295m. In addition, the bank had participated, as lead manager, in syndicated loans worth more than \$2,000m, including the \$500m credit raised for the Italian state oil company, ENI, and another worth \$300m for the Government of Bahrain.

GIB, which has been

Business in progress at National Bank of Bahrain, Manama.

operating as an offshore unit for fewer than five years, equally aggressive. With few years ahead of ABC, recorded participation in medium-term lending is worth an impressive \$10,000m. Equally important was the rise in the bank's average returns: 0.71 per cent on assets during its first nine months of 1980 compared to 0.60 per cent in 1979.

Although some Western bankers claim that the fact that both banks are Arab-owned—ABC by the government of Libya, Kuwait and Abu Dhabi, and GIB by a seven Gulf countries—gives them an edge in the battle to recycle the vast Arab oil surpluses, both Mr Saudi and the GIB chairman, Mr Abdul Jab Saif, who also serves as director-general of the BMA, attribute their success to their lack of having to engage in demarcation disputes with parent companies as to their willingness to see business wherever it found.

Apart from the entry of such tough new competitors, the established OBUs are also experiencing some unexpected problems in dealing with the regional currencies—Saudi and Qatari rials, Kuwaiti and Bahraini dinars and UAE dirhams—which make up about a quarter of their total assets.

Despite this, the prospect of participating in the huge new development project planned during the next few years, as well as in the recycling of Arab oil wealth is enough to attract more OBUs to Bahrain. With the Saudi development plan alone worth \$345,000m in 1980, and with the combined oil surplus set to reach \$180,000m this year, more banks can expect increased business at minimum, and, if all goes well, significant profits as well.

Pamela Ann Smith

Kuwait

Rich—yet short of money

Kuwait presents two faces to the financial world. In international markets it probably has the most advanced services of all the oil-rich Opec countries. Long experience of investing oil revenues has enabled the country to build skills and institutions which are the envy of the rest of the world.

At home, the country's financial markets are much less advanced. The pursuit of targets for the exchange rate, interest rates and free movement of capital have, on occasion, combined to produce a paradox.

Kuwait, the richest country in the world, often finds itself short of money, not in the sense of finding it hard to pay its way. The massive surpluses each year on its balance of payments have produced total holdings of foreign currency of \$50,000m.

The problem is of quite another kind. It is that by holding down interest rates, the Government has produced a flood of money out of the country into other markets where interest rates are higher.

Because the Government pursues a stable exchange rate policy, anyone moving his money out of Kuwaiti dinars into, for example, dollars, knows that he is not taking any great risk of losing on a parity change.

Since the Central Bank of Kuwait intervenes to hold down interest rates, with an effective ceiling of about 10 per cent, it is possible to borrow money in Kuwait at 10 per cent, lend it in dollars at about 20 per cent and pocket the difference.

The anomaly of this situation illustrates a deeper issue. Kuwait has never come to terms with whether it really wants to be an important banking centre or not. Banks in the country operate under some fairly severe restrictions. They have to be locally owned (though one, the Bank of Bahrain and Kuwait is only 50 per cent locally owned) and they are mostly in private hands. The Bank of Kuwait and the Middle East has a government stake.

The oddities of the Kuwait money market have not prevented these banks from reaching enormous size. The biggest, like the National Bank and the Gulf Bank, are among the largest in the Arab world. But their functions are heavily biased towards trade credit, something of a boom area in the mid-1970s because of the country's rapid economic growth.

The long-term growth of the banking sector, however, is likely to lie in another direction, the provision of capital to the international markets. Kuwait's assets are channelled through a number of investment institutions. There are three investment companies, the Kuwait Investment Company, the Kuwait International Investment Company and the Kuwait Foreign Trading Contracting and Investment Company.

These three companies were particularly active in the initiatives which led to

the setting up of a market in bonds denominated in Kuwaiti dinars in the mid-1970s, the country's most ambitious effort yet to break into the big league as a financial market in its own right rather than as a supplier of funds to markets elsewhere.

The KD market, as it is known, had good and bad points. The good point was that many of the world's top names in the list of borrowers used the market's facilities starting with the city of Oslo in 1975.

The bad news was that the reason they did so was that they were in effect being given subsidies, since Kuwait interest rates were held down. On that basis, there were shortages of borrowers but rather few lenders from outside Kuwait.

One estimate made at the time that the Government decided to declare a moratorium on further borrowings in late 1979 was that 80 per cent of all such bonds were held in Kuwaiti hands. The Government stopped the issuing of new bonds in order to cut the drain on the country's liquidity which they represented. At the same time, the Government introduced a package of other measures designed to keep up the liquidity level in the country.

A market in secondary bonds was allowed to develop with the Arab Corporation for Trading Securities playing a leading part. As part of this change, a market in certificates of deposit has also begun to develop.

It is, however, a source of investment funds that Kuwait has the real financial muscle it needs to become a financial services sector. These funds are channelled through public and private agencies. The Government uses foreign banks in some countries and the Kuwait Investment Office in London to handle its own funds. Private investment is handled by such companies as Gulf International and the Kuwait Real Estate Investment Corporation.

Property has long been a favourite investment medium for the Kuwaitis and this is shown on their own stock exchange. This market can generate large transactions, but the number of people involved and the breadth of shares are small. Only Kuwaiti nationals are allowed to buy shares on the stock exchange. Because some of the individuals involved are very rich, they can generate colossal turnover, with real estate, banks and insurance companies coming top of the list.

But there is little incentive for the leading companies to seek a stock exchange quote and the market has its oddities, as was shown in 1976 when the Government spent \$360m on shares to stop prices falling too far. The stock exchange is a pretty speculative venture, rather than a source of capital for industry, but the odds for the players are better than in most gambles.

David Blake

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Saudi Arabia

Fears that inflation may soar once again

During the past two years the Saudi Arabian Monetary Agency (SAMA) has been remarkably successful in bringing the money supply under control. The rate of increase is starting to rise again, however, with bank advances alone rising by more than 3 per cent a month in the second half of 1980, half as much again as the average monthly increase during 1979.

Inflation remains within single figures, but there are worries that it may soon rise more as spending under the three five-year plan, covering the period up to 1985, gets under way. It is going to be difficult for an economy with a workforce of fewer than two million to absorb development expenditure of more than \$235,000m in just five years without serious inflationary consequences.

SAMA's task in helping to steer the Saudi Arabian economy is made more difficult by the lack of conventional means of monetary control, yet it is still expected to exercise strong authority as the kingdom's central bank. One critical problem is its ability to use interest rates as a means of curtailing credit expansion, as interest is officially prohibited under Saudi Arabia's Islamic law. The banks levy service charges in lieu of interest,

set at about 5 to 10 per cent during the past year, but SAMA, as the representative of Islam's holiest government, has to set an example itself by complying with the spirit as well as the letter of the law. Therefore, although a proxy for interest exists, SAMA never indicates what service charges the banks should levy, or puts pressure on the banks to change their rates to achieve monetary policy objectives. Concepts such as a variable minimum lending rate are alien to Saudi Arabia.

The negligible rewards for deposits in Saudi Arabia, where most funds are left in current accounts which earn no interest, has prompted many local citizens with surplus savings to open deposits outside the country, especially in Bahrain, where interest can be earned in line with international rates. As there are no foreign exchange controls there is little action SAMA can take to curb this exodus of funds. In addition, some unscrupulous borrowers from the two most important domestic lenders, the National Commercial Bank and the Riyadh Bank, have even deposited funds in Bahrain.

The banks themselves naturally disapprove of such speculative practices, but they are unwilling to ask too many questions concerning the deployment of funds, as personal privacy

in all financial affairs has to be respected in Saudi Arabia. Moreover, such an exodus of funds could, in curtailing the money supply, assist anti-inflation policy. The difficulty is that many of the funds deposited in Bahrain are lent back into Saudi Arabia, yet they are beyond SAMA's direct control.

It would be erroneous, nevertheless, to blame Bahrain for any shortcomings in the Saudi Arabian financial system. Even though almost half of the total supply of rial is now accounted for by Bahrain, SAMA has prudently not attempted to penalize its rather vulnerable offshore neighbour, which the Saudi Arabian Government seeks to protect for political perhaps more than economic reasons. SAMA officials argue that if the funds did not go to Bahrain they would merely find their way into other international financial markets where the Riyadh authorities have much less influence.

Nor are exchange controls an answer, as a large portion of the funds remain in so-called offshore rials, so no conversion is necessary any way. To prevent conversion of the remaining funds into dollars and other western currencies would present SAMA with difficulties, as much of the exchange business in Saudi Arabia is carried out by money-changers such as the Al-Rajjis, who are also beyond

the agency's control. Hence the only solution, and the course SAMA appears to be taking, is to cooperate closely with its counterpart, the Bahrain Monetary Agency, to ensure that mutual interests do not conflict.

Apart from interest rate variations, other standard methods of controlling the money supply include open market operations, changes in liquid asset ratios and exchange rate adjustments. The first option, open market operations, is precluded in Saudi Arabia, as there is no market in government securities, and any temporary deficits which arise are simply financed by drawing on the kingdom's vast liquid reserves rather than through domestic borrowing. This, nevertheless, has implications for the supply of rials, as deficit financing results in the conversion of dollar reserves into local currency without any sterilisation of domestic funds.

The second option of changing liquid asset ratios has been taken up on several occasions. In 1979 the ratio was reduced from 15 to 12 per cent on demand deposits, and 2 per cent on the small volume of time and savings deposits. Last year it was further reduced to 7 per cent on demand deposits, although this was mainly to counter the domestic shortage of liquidity due to the flight of funds to Bahrain, and SAMA's

move, must essentially be seen in defensive terms.

The third option of exchange rate changes has also been tried, as in March 1980 when SAMA revealed the rial instead of devaluing, as most dealers believed would happen. This changed those Saudis who had speculated in other currencies in Bahrain; and this was, without doubt, the main aim of the authorities. At the same time it may nevertheless have caused a mild monetary stimulus by increasing the value of rial balances.

Until these more complex methods of monetary control are used with greater frequency, the Saudi authorities will probably be forced to rely on the rather crude technique of simply halting certain government expenditures from time to time, usually by delaying payments to contractors. Such methods create considerable uncertainty, and are often detrimental to smooth development through spoiling project coordination. In the long run it can also raise development costs where contractors have escalation clauses, or where contractors start to build-in a higher margin to allow for irregular payments. Clearly some rethinking of financial policy is necessary in Saudi Arabia, if the lack of monetary instruments is not to have real development costs.

Rodney Wilson

United Arab Emirates

Despite competition for funds optimism returns

Banking in the United Arab Emirates faces a difficult year, but the outcome could be an increase and more profitable level of activity for both the local banks and foreign institutions. With oil revenues continuing to increase rapidly and big new investment being made in hydrocarbons, optimism is gradually returning despite the continued outflow of dirhams and the competition for funds.

The principal change this year is the establishment of a Central Bank to replace the UAE Currency Board, which has acted as the country's central bank since its foundation in 1973, two years after the UAE achieved independence. Starved of funds despite the emirates' oil wealth, and beset with political conflict, the Currency Board was never able effectively to regulate banking activity or, equally important, to control the money supply. The number of money changers and small banks, many of them simply adjuncts of the big merchant houses, grew alarmingly, precipitating a banking crisis in mid-1977.

Only after the International Monetary Fund stepped in and recommended the establishment of a central bank did the crisis recede. But lack of agreement between the country's seven emirates, who make up the emirates' Supreme Council, forestalled its establishment until last December when a board of directors headed by Sheikh Sultan bin Muhammad al Nahayan (an Abu Dhabi who also serves as Chamberlain of the President's Court) was appointed. On January 1 it formally replaced the Currency Board and it is now preparing a series of regulations which are expected to be announced within the next few months.

High on the list are measures to stop the proliferation of banks in the country, which at last count totalled 52. (The population of the emirates is only about one million, even if the hundreds of thousands of foreign workers are included.) Observers expect the Central Bank to introduce regulations concerning the amount of paid-up capital a locally incorporated bank will be re-

quired to have, and to adopt other measures aimed at encouraging the recapitalisation, or even merger, of some of the smaller entities.

Already the Bank of the Arab Coast, which is based in Ras al Khaymah but whose shareholders include a number of prominent Kuwaiti merchants, has announced plans to expand its capital from a modest 5m dirhams (\$1.35m) to 100m dirhams (\$27m). New directors will be added to the board to replace those of Credit Libanais and Banque Europeenne pour le Moyen Orient, who have decided to withdraw. Several other banks in the emirates are said to be considering either recapitalisation or extension of their shareholding.

However, the immediate task facing the Central Bank will be to stem the increasing drain of funds to more lucrative havens abroad. The outflow, which began in November, soon after Mr Reagan's electoral victory in the United States, shows no sign of easing. Predictions that United States interest rates will remain high, coupled with the lessened

attraction of Deutsche marks and other European currencies, are adding to the flight into dollars.

Late last year the Currency Board was forced to revalue the dirham against the dollar in an effort to reduce the yield which local investors received from their dollar deposits. Despite this, the outflow continued as American interest rates rose several percentage points above those prevailing in the UAE. Further action to reduce the size of dirham deposits - subject to local interest rate ceilings from 10m dirhams to 5m dirhams, and to raise interest rates on one-year deposits from 9.5 to 10.5 per cent, failed to stem the drain.

While figures for the fourth quarter are not yet available, many bankers fear they could be worse than those of last May when demand, time and savings deposits fell from 20,615m dirhams (\$5,570m) at the end of 1979 to 20,400m (\$5,510m) even though the country is estimated to have accrued some 21,200m dirhams (\$5,700m) in surplus revenues during the same period.

Now, with United States interest rates generally expected to remain high over the next few months, the Central Bank will face intense pressure to raise local interest rates and to revalue the dirham again. Yet by doing so the bank could incur the displeasure of some of the rulers of the smaller emirates which are known to be opposed to regulation of this kind, particularly when it comes so soon after the November round of increases.

Problems faced by the banks concern the shift in government deposits that the establishment of the Central Bank entails. As part of the agreement on its formation, the rulers of the two wealthiest emirates, Sheikh Zayed of Abu Dhabi

and Sheikh Rashid of Dubai, agreed to deposit half their oil revenues in the Central Bank. While this will give the institution the financial muscle it needs to impose its new regulations, those local banks which had previously received a large share of the oil funds may find themselves looking to the private sector for business.

The National Bank of Abu Dhabi, which stands to lose part of the accounts of the Abu Dhabi National Oil Company (ADNOC), and possibly of the Abu Dhabi Investment Authority as well, is planning to expand its operations abroad, particularly in London, where it already has two branches. The National Bank of Dubai, which has effectively operated as a government bank in the emirate, is expected to increase its activity in trade finance while the Emirates Commercial Bank, one of the top five banks in the UAE, is looking for additional business in India and among the large number of foreign workers in the country who originate from India and Pakistan.

While some Western bankers are sceptical that the larger local institutions will be able to accommodate themselves to the changes, others point out that plans by ADNOC to embark on a \$10,000m development programme during the next five years and the continued increase in the country's oil revenues will provide plenty of business for all.

As Mr Ian Irving, the local manager for First National City Bank of Chicago, puts it: 'The year 1981 will be a good one for Abu Dhabi. Everyone connected with the oil industry - and that means most of the town in one way or another - will benefit. Bankers in other parts of the emirates are hoping that his optimism is justified, and that it will apply to the country as a whole as well as to Abu Dhabi.'

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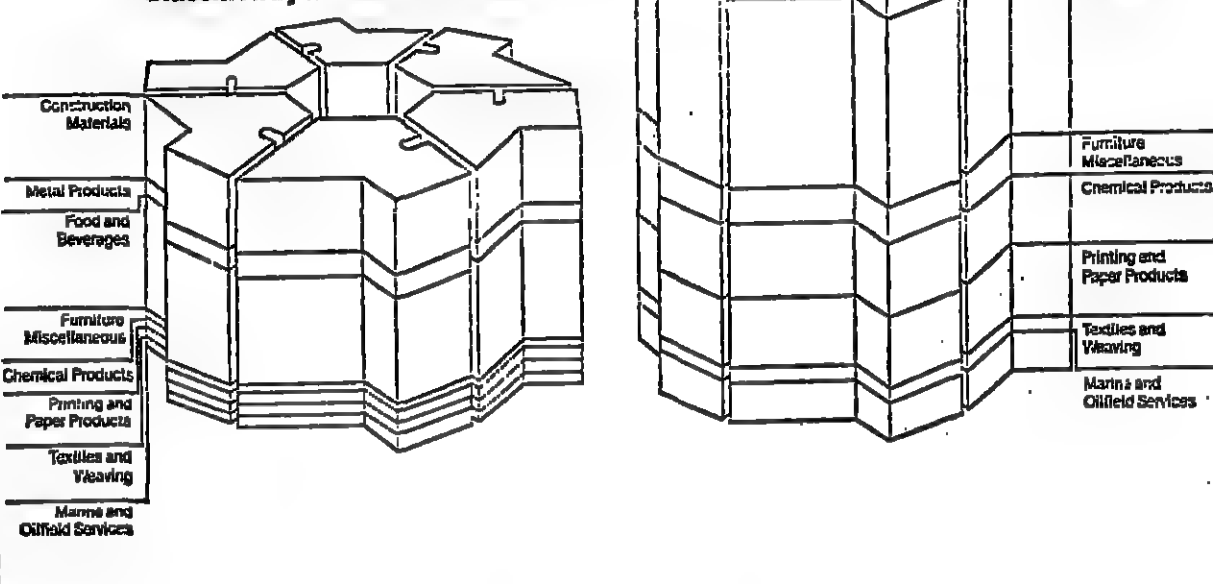
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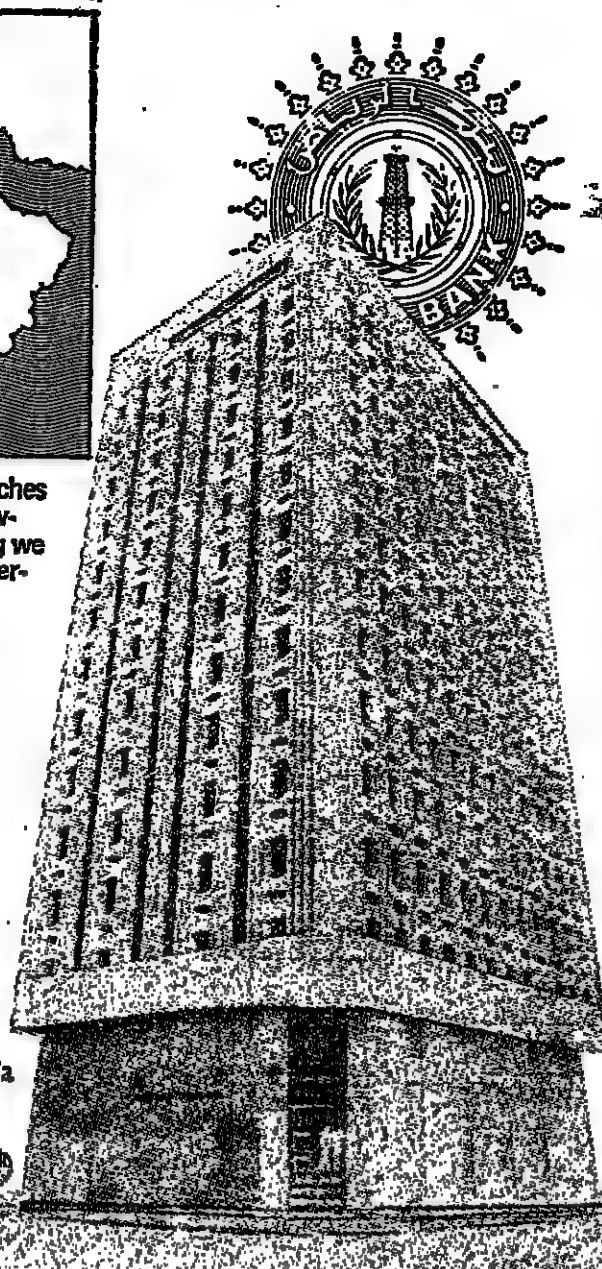
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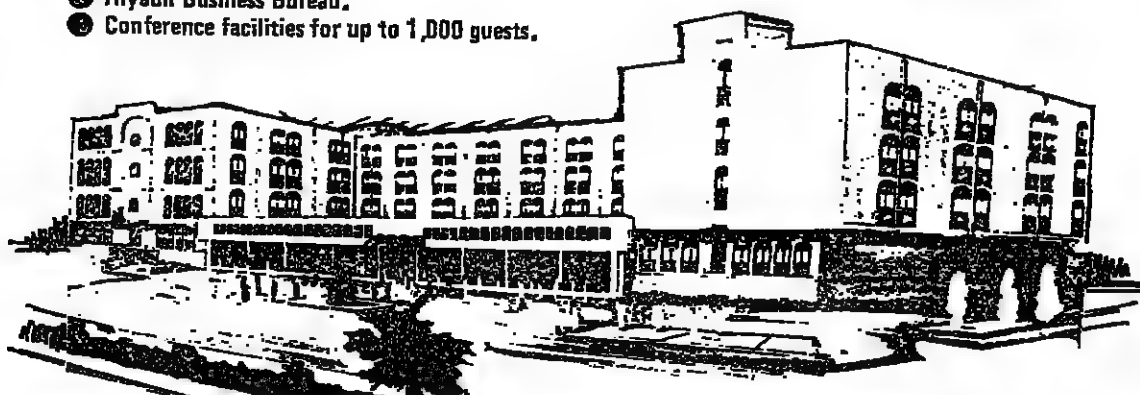
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Oman

Financial health has improved

It is 9 pm at Sib international airport on a Friday evening, the departure hour of the commuter run to Dubai. A group of bankers are talking quietly about the improved financial health of the Sultanate. Once "the sick man of the Gulf", Oman is now a good name, despite a hesitant start to development immediately after the accession of Sultan Qaboos in 1970.

The chief executive of a Dubai-based merchant bank remarks to his colleagues: "It is amazing how things have been turned round although in some parts of the country people are still living in a barter economy".

Omani currency, with its exotic almost Toy Town-sized banknotes, is now accepted throughout the Gulf by money exchangers, with the Sultanate, stemming from Britain's long-standing ties with Oman. The Central

Musandam peninsula abutting the Straits of Hormuz, the Al-Misra thaler is still used side by side with the Omani rial. Yet in 1981 with the country launched on a big development plan, the foundations of modern banking services have already been laid.

Omani bankers are unusually shy about how this was achieved and who should take the credit for the recovery. While it is true that some of the smaller banks among the 20-strong community continue to produce disappointing figures the overall strength of the market is unquestioned and, if anything, is increasing.

First to take the credit must be the "personalities", according to the London-based merchant banks, which have the best relationship with the Sultanate, stemming from Britain's long-standing ties with Oman. The Central

Bank of Oman has been exceptionally well advised by Mr. Michael Brown, its deputy chairman and executive vice-president, and was also well led by its late chairman, Mr. Tariq Bin Taimour, who died in London in December 1980 from cancer.

Sayyid Tariq, as he was known, was the uncle of the Sultan and Oman's first prime minister. On the board of governors of the bank and very much alive is Mr. Muhammad Musa, the Sultanate's under-secretary of Finance, who is regarded as having one of the best financial brains in the Gulf.

Next in line for praise has to be the market leader, National Bank of Oman, which recently produced excellent figures for 1980. Profits were the equivalent of \$4.3m, described by the bank as "90 per cent up on 1979". Much of this profit

could be ascribed to high interest rates in early 1980 particularly in the dollar but it also reflects National Bank's growing customer base. Mr. Muhammad Shafi, its general manager, a Pakistani who came from Bank of Credit and Commerce International, says the bank's clients include companies such as Gulf Oil and Japan's C. Itoh.

It is rare for a bank manager in the Gulf to list customers but Mr. Shafi clearly does it with pride since he feels an important message to put across is that the Omani banking system is capable of conducting transactions that historically were done for the Sultanate by the big names. National Bank of Oman has 35 operational branches including Cairo and there are long-term plans for an office in Alexandria.

It has assets totalling nearly \$300m, equivalent to about 20 per cent of the Sultanate's total commercial bank assets. Its chairman is Mr. Haji Ali Sultan, a distinguished Omani businessman, who is president of the local chamber of commerce and industry and well known to visiting businessmen.

The banking community, apart from the seven locally incorporated banks which are all at least 51 per cent Omani owned, includes foreign banks with long standing relationships with the Sultanate. British Bank of the Middle East was for a time the currency-issuing authority before the central bank was established.

Britain's Grindlays and the French Banque de Paris et des Pays Bas all retain strong customer loyalty, particularly among older Omanis.

It is known that some of the older, more conservative Omanis still decline to accept interest on their deposits, but the banking habit has at least caught on. Hoarding or "the money in the box under the bed" phenomenon is still common but becoming less prevalent.

Oman has also created a number of institutions which complement the commercial banks. To the great pleasure of the International Monetary Fund, according to an informed Washington source, Oman has set up a development bank to provide loans for productive enterprises and has also opened a housing bank which acts

in much the same way as British building societies. Other wealthier Gulf states such as Qatar, lack such institutions.

Oman's currency position has been a firm commitment to the dollar—the peg has been maintained at the rate since February 1971, which some observers consider is remarkable. Musa takes the view that fluctuations in the value of the dollar, there is no point in "playing about with the exchange rate." Omani view is that oil payments are in dollars and oil is almost the source of income, the relationship should stay same.

Nevertheless, there have been attempts to diversify the economy. These in themselves will make Oman more interesting to international financial community. Revenue from sales of refined copper will start coming in by 1979. The management of the project has been disturbed by what it considers to be the negative reaction some banks to the achievement so far. Mr. Jack Wa Oman Minister and Company managing director, is insistent: "The copper smelter will operate at profit from the word go."

Ignorance about Oman the West is excusable. Until 1970 it was a country in a dark age ruled by a despotic ruler. In only 11 years this has changed. Under the new five year plan launched on January 1, 1981, the spending \$21,347m is envisaged from oil revenues. An amount equal to about a third what Britain gets from the North Sea.

Oman is no longer a World Bank case study, unless success is analysed, nor is it in need any more for advice on demand management. The IMF, but the continuing financial health of Oman will depend upon its ability to keep control of its political destiny. In recent talks about a Gulf security pact, Oman has taken a lead and appears to have a better rapport with its neighbours—the UAE and Saudi Arabia. To banks concerned with the Sultanate that can only be good news.

John Whelan
deputy editor
Middle East Economic Digest

North Yemen

Hoarded money needed for investment

In February, 1980, a number of changes were made in the Yemen Arab Republic's banking system. They were prompted after the International Monetary Fund had been called in to review a \$30m balance of payments deficit for the first six months of fiscal 1979-80.

The maximum interest rate on commercial bank loans was raised to 13.5 per cent and, in April, to 15.5 per cent. Deposit rates were also raised from between 6 per cent and 8 per cent to between 8.5 and 11.5 per cent, and later to between 10.5 and 13.5 per cent. The rates for long-term loans from specialized credit banks were raised from between 6 per cent and 7 per cent, to between 9.5 and 10.5 per cent, and later to between 11.5 and 12.5 per cent.

The year 1979 had proved to be a bad one financially. Deposits in current accounts fell from \$767m in mid-1978, to \$747m in mid-1979. A trend towards investing abroad was accentuated by the war with South Yemen in early 1978. This in turn hoarded defence spending, and that resulted in an 87 per cent rise in total government outlay for 1978-79.

Capital spending too was running well ahead of estimates. Furthermore, the flow of remittances from nationals abroad was showing signs of stagnation, because of a leveling off in the number of workers going abroad and a slowing down in the rate of their wage increases.

Remittances constitute the country's main source of income. In 1979, about 1,500,000 people—21 per cent of a population estimated at seven million—were working abroad, mainly in Saudi Arabia and other Gulf countries. Remittances for that year were valued at \$1,400m. The Yemeni worker, having first exchanged his wages for Yemeni rials, repatriates the money to his family or relatives. Most of the money is never banked, and the cash income has resulted in a consumer-oriented society.

An International Labour Organization report, published in mid-1980, warned of the economic pitfalls that migrant labour can cause. Too often remittances are channelled into buying imported consumer goods rather than into productive investment. The Yemeni banks are now trying to attract traditionally hoarded cash into private investment, at the same time establishing a base of rials strong enough to assist its local financing programme.

The bank must now open more local branches able to offer a competitive service in relation to the money-changer and to take advantage of the hoarded remittances. In 1979 the Yemen Bank for Reconstruction and Development increased its total number of branches to 21, opening eight new ones in outlying towns such as Sada, Mocha, Amran, Bayt al-Faqih and Baillij.

The International Bank of Yemen, which opened on January 5, 1980, has been established with the specific aim of developing a branch network. Yemenis from rural areas are being trained to operate branches near their own homes.

Lending to the agricultural and industrial sectors will be an important part of banking operations. Agriculture is vital to the country's economy; it contributes more than one third of gross domestic product, and employs more than half the labour force. The Agricultural Credit Bank was set up in 1975 to provide inexpensive credit for agricultural needs, such as seeds and mechanical

equipment. Part of a \$17m International Development Association loan towards the second stage of the southern uplands rural development scheme will enable the bank to extend projects in the region.

The Industrial Bank of Yemen, set up in 1976, approved loans of about 25m rials for 30 projects in 1978-79, the bank's first full year of lending operations. Most of these projects were by building material concerns. The sum of 65m rials has been estimated for development projects in 1980-81.

Loans and guarantees amounting to 46m rials were made by the Yemen Bank for Reconstruction and Development in 1979, an increase of 10m rials on the previous year's figure.

In 1977 the Housing Credit Bank was set up and in trying to overcome the acute shortage of housing for low-income groups. The channelling of foreign aid will become increasingly important as the second five-year plan (1982-86) draws close. Mr. Hasan Maki, Deputy Premier for Financial and Economic Affairs, has said: "We need between \$10,000m and \$20,000m in the next 10 years to complete our basic infrastructure and to enable us to become self-sufficient."

As well as overseas aid, the participation of foreign banks is sought. The Industrial Bank is making intense efforts to gain the confidence of international banks, particularly for cofinancing projects needing capital beyond its own financial resources.

The Government hopes Bank was set up in 1975 to provide inexpensive credit for agricultural needs, such as seeds and mechanical



Agriculture is vital to the economy and employs more than half the Yemeni labour force.

both in the private and public sectors. Mr. Mohammad Hizam al-Shohadi, the Economy Minister, has said that Yemen will cooperate in the activities of all foreign banks in the country. Interest has recently been shown by Australian, British, United States and Japanese banks, whose officials visited the country in February to discuss new projects with the Central Bank.

Foreign banks with branches already in the country include Citibank, British Bank of the Middle East, Arab Bank, Bank of Credit and Commerce International, Banque de l'Indochine et de Suez, Habib Bank, National Bank of Abu Dhabi and United Bank of Pakistan.

Kuwait, one of the largest investors in the country, is represented by the Yemen Kuwait Bank for Trade and Investment, set up in Sanaa in 1978. Investment in real estate and development projects—especially hotels and luxury housing—is handled by the Yemeni Kuwait Real Estate Development Company, established in 1977.

Agreement was reached in December to set up a branch of Iraq's Rafidain Bank in Sanaa. This would help coordinate the activities of the Iraqi projects office—now overseeing the construction of schools, roads and hospitals—and supervise the disbursement of a \$300m Iraqi loan agreed in 1979.

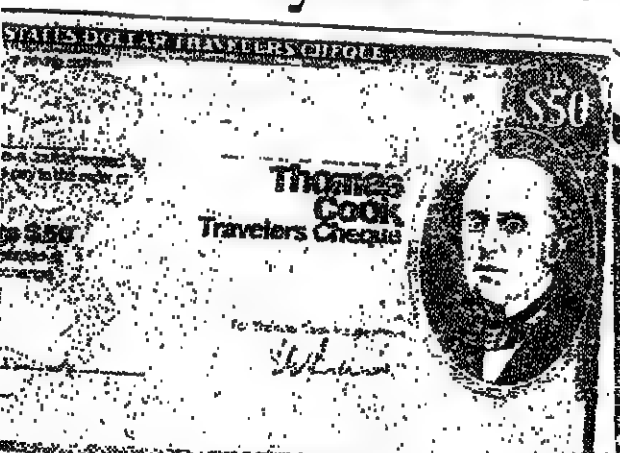
IMF figures for the period between March and August, 1980, show an increase in commercial bank deposits from 2,015m rials to 2,191m rials, against a background of growth in the money supply from 8,492m rials to 9,161m rials. Yemeni bankers will hope that attempts made to expand the banking sector will succeed in providing the necessary base from which to achieve long-term objectives.

Jonathan Crusoe
Middle East Economic Digest

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Jordan

International interest in Amman's stock exchange

based Arab Finance Corporation which is owned by Kuwaiti, Lebanese, Japanese, Saudi and other interests, and has shares in 17 Arab and international financial organizations.

But what perhaps best symbolized the growing international interest in Jordan is its stock exchange, the Aman Financial Market. It recorded a trading volume of \$52.8m in 1979, an increase of 182 per cent on 1978—its first year of trading.

By early 1980, monthly trading volume was running higher than the entire first year's turnover. Industrial companies in 1979 accounted for 42.6 per cent of the leading shares, and 45 per cent of the volume came from financial institutions.

Anna Krajewska
Middle East Economic Digest



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Pointer to the growing advancement of Cairo as a marketplace

Four Egyptian banks are now feeding in money rates to Reuters Monitor, the most modern system through which banks deal with each other. It is a development started only in November 1980 which points to the growing advancement of Cairo as a marketplace.

Only 18 months ago most Cairo bankers who live daily with a telephone system which is among the most frustrating in the world would have thought such a development impossible. "Like building the pyramids in a day", the adviser to a large United States bank says.

Reuters' arrival suggests a theme. The Egyptian banking sector will become much more international in the 1980s with the emphasis on investment, development and growth. Despite ruptures in the Nasser era, when some foreign banks declared they would never return, the present atmosphere of trust

between Egyptian and foreign banks is "second to none", in the words of a London based merchant bank. Much of this has to do with Egypt's improved balance of payments position, growing oil revenues and arguably the breathing space resulting from the bilateral peace with Israel. The rest of it has to do with the strength of the system at ground floor level.

The present system consists of the central bank, four state-owned public sector commercial banks—Bank of Alexandria, Banque du Caire, Banque Misr and National Bank of Egypt; 20 joint-venture commercial and investment banks; 54 branches and representative offices of foreign banks; seven specialized banks and 23 specialized financial institutions. Since 1974, President Sadat's "open door" policy of liberalizing the system has seen a steady in-

crease in the number of banks wishing to establish themselves in the country or to do business with their Egyptian counterparts.

This policy of liberalization during the past seven years has resulted in rapid growth in the banking sector. For example, in terms of international liquidity, commercial banks' foreign assets have increased to \$3,372m in July 1980 from \$684m in 1974. The central bank's foreign assets have risen from \$200.9m to about \$1,211m during that period while commercial banks' deposits in 1980 stood at about \$7,330 as compared to \$1,523m in 1974. However, the big four public sector banks still tend to dominate the system although they are certainly outnumbered by the private sector.

Of the big four state-owned banks, National Bank of Egypt remains the largest and wealthiest. In 1979 its

total assets/liabilities stood at about \$4,200m. It ranks as about the tenth biggest bank in the Arab world in terms of its assets/liabilities and from 1971 to 1978 had total monopoly on all foreign trade.

Banque du Caire, whose assets/liabilities were \$2,136m in 1979, concentrates on the service and construction sector of the country; Banque Misr, which has one of the largest branch networks, specializes in domestic trade and Bank of Alexandria retains its interests in the industrial public sector.

The big four have 50 per cent or 51 per cent stakes in important private sector joint venture commercial banks. Banque du Caire has 51 per cent in Banque du Caire et de Paris and 50 per cent in Cairo Barclays International Bank. Its foreign branch in Saudi Arabia was established in 1979 and has become the Saudi Cairo

Bank. Banque du Caire has Algeria, Jordan, Saudi Arabia, Bank Al Jazira, and Qatar. The bank has made its mark on the international market through Euroloan syndications and through its extensive network of branches and subsidiaries. It has offices in Beirut, Khartoum, Abu Dhabi, Dubai, Amman, London and New York. Its offshore banking unit operates in Bahrain. There are two major subsidiaries in Mauritania and Oman—Banque Arabe Africaine en Mauritanie and Oman Arab Bank.

AAB also has a large stake in the Luxembourg-based Arab Multinational Finance Company, which has a Cairo office and whose activities include trading in securities, stocks and precious metals. Smaller shareholdings are in the Kuwait-based UBAH Arab Japanese Finance, UBAF Arab American Bank, the Industrial Bank of Jordan, the Housing Bank of Jordan

and Tunisia's Compagnie Financière Immobilière et Touristique. Arab International Bank, which is owned by the governments of Egypt, Libya, UAE, Oman and Qatar, has been trading since 1971. It has stakes in Egypt's Société Arabe et Internationale de Banque and in European Arab Bank (Brussels), in Belgium. Both AAB and AIB predate Egypt's Law No 47 which opened the doors to liberalization, and thus technically do not come under the Egyptian courts' jurisdiction. They have also not been affected by sanctions resulting since the severance between Egypt and the Arab League after the Camp David accord and retain their Arab government shareholders.

The remaining private sector banks which have been formed in partnership with foreign banks include: Alexandria Kuwait International Bank, Misr America

International Bank, Misr Arab Development Bank, Misr Roman Bank, American Express Middle East Development Company, Société Arabe et Internationale de Banque, and Suez Canal Bank. Other private commercial banks include the newly established Al Watany Bank of Egypt, Delta International Bank and Mohandes Bank.

Islamic Banks have also been attracted to the sector; Dubai Islamic Bank has a licence to operate in Cairo and Faisal Islamic Bank of Egypt—a joint venture with Saudi Arabia—was established in 1978. Another Islamic bank, Nasser Social Bank, was established in 1972 and the Islamic Bank International Association has its head office in Cairo, with a foreign branch in Saudi Arabia.

Foreign commercial and investment banks from 19 countries operate in the country. The United States

has most—nine: America Express Bank of America, Crocker National Bank, Citibank, Chemical Bank, Chase Manhattan, Industrial National Bank of Rhode Island, International Finance Corporation and Manufacturers Hanover Trust Company. Next with seven branches is Union Fribank, Banque Nationale de France, Crédit Commercial de France, Crédit Industriel et Commercial, Crédit Lyonnais, Société Générale and UBAF.

West Germany has four commercial banks: Deutsche Bank, Dresdner Bank and Commerzbank. The United Kingdom has three: Lloyd's Bank International, Midland Bank and Morgan Grenfell. Switzerland also has three: Habib Bank AG Zurich, Credit Suisse and Swiss Bank Corporation.

Anna Krajewski

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North Africa

A desirable credit risk

The American hostage crisis estimated at \$19,000m and needs to be reduced. It is this balancing act which has probably inhibited the Algerians from tapping the market for 10-year money, even when margins could be tight.

Morocco's problems by contrast are the opposite. A sharp criticism from a World Bank report on Morocco in late 1980 by the Office Cherifien des Phosphates (OCP), which handles phosphate exports, got a lukewarm response in the market. London bankers said the amount at \$250m was too big, and the margins were too tight. The transaction was completed just before Christmas at \$170m after some heart searching by the large management group drawn from 10 countries.

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Of the three Maghreb countries—Algeria, Morocco and Tunisia—Algeria alone is now regarded by most lenders as a desirable credit risk. Lenders are, in fact, frustrated because Algeria has dropped right down the list of borrowers. It is thought in London that the Algerian state banks have large undrawn funds which were arranged over the past two years, and have no real need for new funds; though institutions such as the Banque Algérienne de Développement (BAD), whose role is to fund capital projects, are unlikely to stay out of the market for ever.

With the 1980-84 five-year plan under the firm hand of President Cheddi now moving ahead, it is hard to believe the planners will resist for long the temptation of going to the market, even though the plan obliges them to use a combination of soft loans from Arab and international institutions and export credit. Foreign exchange reserves are indeed high at about \$3,300m, but external debt is

estimated at \$19,000m and needs to be reduced. It is this balancing act which has probably inhibited the Algerians from tapping the market for 10-year money, even when margins could be tight.

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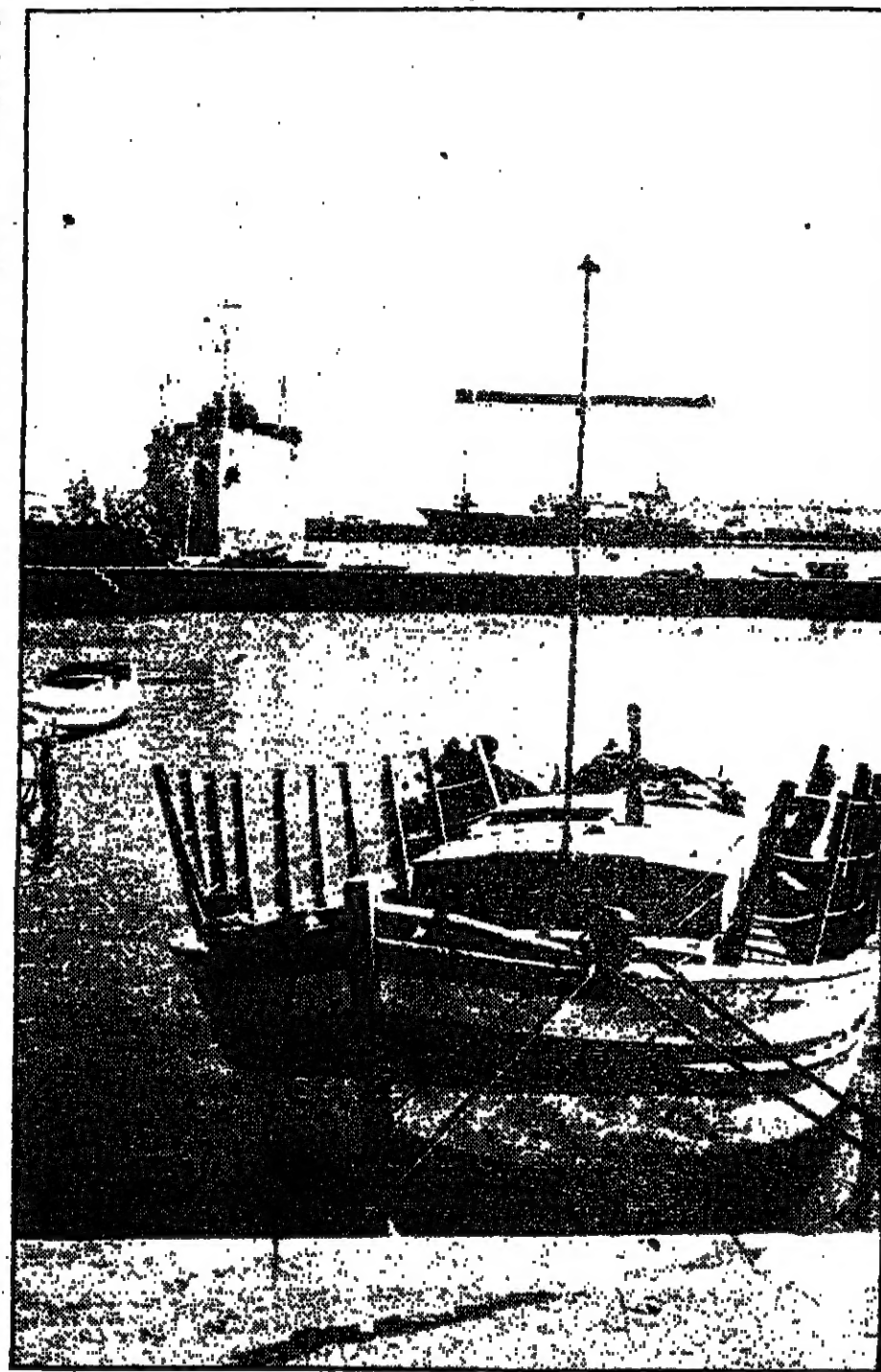
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Equally, Morocco's Banque Nationale pour le Développement Economique had a good response to a proposal for 30m Swiss francs, over one year, under a guarantee by the Kingdom of Morocco. The bank made the most of its list of shareholders, including the Moroccan Government, Moroccan banks, need for new funds; though institutions such as the Banque Algérienne de Développement (BAD), whose role is to fund capital projects, are unlikely to stay out of the market for ever.

Tunisia's reputation for political stability has made it both an attractive borrower and given it a marginal status as an offshore centre. The first bank to look into these possibilities was Citibank of the United States, whose Middle East and Africa division head Mr Anthony Mantzavinos, has said after a recent visit that the Tunisians are expressing an appetite for loans in the 1982-86 five-year plan, as well as a desire to expand the role of offshore banks. Citibank was not only Tunisia's main attraction as an offshore centre, apart from having many of the facilities of a provincial French town, is as a window on Libya. As it would be difficult in socialist Libya for an American bank to operate, Tunis is an obvious choice for dealing with Tripoli. The banking community in Tunis also includes ambitious and rising Arab banks, such as the National Bank of Abu Dhabi, which has a limited but important role for its Tunis operations.

Tunisia suffers from having a limited absorptive capacity. This can be illustrated by the problems encountered by the Export-Import Bank of the United States in getting exporters to use a \$100m credit agreed for the country in 1979. Another area of frustration was encountered by the Riyadh-based The Arab Investment Company (TAIC), a pan-Arab-owned merchant bank, which wanted to back an industrial project, but found excessive bureaucracy and resistance to outside investment in some quarters.

John Whelan



The docks at Sousse, in Tunisia.



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Libya

Yugoslavia is the privileged foreigner

Amid the upheavals in Libya's economic and social life brought about by revolutionary change in the past few years, two vital sectors of the economy have remained fairly free of interference—oil and banking. The banks and the oil companies were conveniently bypassed by workers who took control of all other businesses in 1978, in line with Colonel Muammar Gaddafi's call for Libyans to become "partners, not wage workers".

Despite almost the eradication of the private sector since 1978, the five domestic banks are flourishing. One of the largest is said to have recorded profits of about \$57m in 1980.

The most important clients are the state corporations. One example is the General Corporation for Iron and Steel Projects which is building a steel works at Misurata costing more than \$500m.

Finance for the scheme is allocated in a plan. The allocation is picked up by the Heavy Industry Secretariat (Ministry) which passes it on to the corporation and into the bank. Much of the banks' activities consists of extending temporary overdrafts and opening letters of credits for such corporations.

Interest rates are fixed at 7.5 per cent for unsecured loans. Secured loans can carry a 7 per cent rate. To attract savings accounts, the banks will pay 10 per cent interest.

Largest of the five domestic banks is the National Commercial Bank, capitalised at \$8.4m. It has 23 local branches and shares in the Luxembourg-based European Arab Holding and European Arab Bank in Brussels. Wadda Bank, the only Libyan bank with a head office in Benghazi, is a shareholder in Banque Arabe Internationale d'Investissement (BAII) in Paris and Compagnie Arabe et Internationale d'Investissement (CAII) in Luxembourg. The other domestic commercial banks are Sahara Bank, Ummah Bank and Jamahiriya Bank.

All the banks were nationalised soon after Colonel Gaddafi attained power on September 1, 1969. At roughly the same time, the 11 foreign banks in Libya, mostly British, withdrew their operations. The only foreign bank allowed to open branches is Yugoslavia's Jugobanka which has a representative office in Tripoli.

Because all the banks' accounts have to be audited

by the slow state audit department, the most recent figures available are those for the fourth quarter of 1978. These show the total assets and liabilities of the banking sector at \$4,200m—7 per cent more than in 1977.

The chairman and deputy chairman of Ummah Bank, Wadda Bank and Jamahiriya Bank were removed from their posts in mid-1980. Some of them were arrested in that year's anti-corruption drive and charged with "economic crimes". The drive is said to have netted about 1,800 people, mostly government officials alleged to have taken bribes from foreign companies. Most members of the banks' board of directors are appointed by the Central Bank of Libya. The board of each bank also includes two representatives elected by the bank's trade union.

Two non-deposit taking banks—Agricultural Bank and Industrial & Real Estate Bank of Libya—act as a channel for state investment in farming and small-scale industrial schemes. Industrial & Real Estate Bank had outstanding loans and advances totalling \$154.5m in 1978 and Agricultural Bank \$42.9m.

A third non-deposit-taking bank, the Real Estate Investment & Savings Bank, was set up in early 1981, with a \$234m capital to provide interest-free housing loans to low-income families.

An important innovation in the banking sector was the formation in 1972 of the Libyan Arab Foreign Bank (LAFB) which operates exclusively in the international market. Capitalized at \$84.4m it is generally recognized as one of the leading Arab banks. Its formation effectively ended all further opportunities for the domestic banks to invest in joint ventures abroad.

Since early 1980 LAFB has been chaired by Abu Bakr al-Sherif, a former economy secretary (minister). The bank has no overseas branches but is said to be close to setting up a representative office in a major Western financial centre.

LAFB's total balance sheet in 1979 was \$2,585m—12 per cent more than the 1978 figure of \$2,312.3m. Pre-tax profits rose by 48 per cent in the same period from \$31.7m in 1978 to \$47m.

In 1980 the bank participated in 20 international loans. It was lead manager for three, including a \$1,500m loan to Italy's state-owned Ente Nazionale Idrocarburi (ENI) and a \$65m loan to the Paris-based Union des Banques Arabes & Françaises (UBAF). It was also co-lead manager for a \$200m loan to Banque Nationale de Yougoslavie. The bank managed three loans: \$300m to Argentina's Yacimientos Petroliferos Fiscales; \$50m to the Bank of Tokyo and \$200m to the Central Bank of Brazil. Among the six loans for which LAFB was co-manager was a \$50m loan to the European Coal and Steel Community.

LAFB has also been involved in overseas joint ventures, such as the Arab Helenic Bank in Athens, and joint holding companies, particularly in Africa. The responsibility for joint companies is to be transferred to a foreign investment company soon to be set up by the Central Bank.

The bank is responsible for investing Libya's large foreign exchange reserves which, excluding the value of gold holdings, were \$6,624m at the beginning of 1980.

In a government reshuffle in January 1981, Kassem Sherif, the governor of Central Bank, was moved to head the Treasury Secretariat. The new governor is Rajeb Misellati, the former deputy-governor.

One problem facing the Central Bank is the vast amount of currency in circulation. This was put at \$2,525m in October, 1980, a figure that would have been realistic enough at the time of the prosperous private sector in the early 1970s but which is now considered to be more than twice as much as is necessary for Libya's 3,200,000 population.

Attempts have been made to reduce the amount of currency, apparently with little success. The most recent was a Government directive issued in February, 1981, urging people to use cheques or bank transfers when making payments of more than \$234.

The currency was reformed in May 1980 and people were given a one-week limit to change old money for new. As it turned out many Libyans were keeping substantial amounts of savings at home and fearing that questions might be asked about how they had received the money, they destroyed large quantities of cash.

Today, rather than build up savings in the bank, many families prefer to spend their money on such items as cars and furniture. It is not uncommon for each member of a family to own a car. Since the currency reform, individuals may draw a maximum of \$3,377 in cash every 15 days. The purchase of gold is severely restricted. Officially, only the state is allowed to sell gold, and even then only as jewelry for special occasions.



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|--------------------------------|-------------|-------------|--------------------------------------|-------------|-------------|
| Assets | | | Deposits | 82,026,473 | 161,902,133 |
| Cash on hand and in Banks | 33,274,797 | 72,006,540 | Cash | 8,411,603 | 10,072,883 |
| Portfolio Securities | | | Collaterals | 872 | 257 |
| Government Bonds | 418,667 | 1,016,667 | Provisions | 1,013,520 | 1,812,993 |
| Local Shares and Foreign Bonds | 1,808,357 | 1,530,853 | Other | | |
| Discounted Bills | 16,395,623 | 25,897,763 | Liabilities | | |
| Overdraft | 44,845,837 | 76,228,657 | Shareholders' Equity | | |
| Accounts | 1,280,000 | 4,188,700 | Capital | 10,000,000 | 10,000,000 |
| Syndicated Loans | 3,243,673 | 4,156,732 | Legal Reserves | 92,288 | 328,830 |
| Net fixed Assets | 1,503,067 | 2,399,610 | Other Reserves and Retained Earnings | 351,880 | 632,803 |
| Other Assets | | | | | |
| Total Assets | 102,768,021 | 187,425,522 | Total Liabilities | 102,768,021 | 187,425,522 |
| Contra Accounts | | | | | |
| L/C's | 32,722,557 | 32,659,310 | | | |
| L/G's | 23,420,743 | 42,081,680 | | | |
| Other Liabilities | 2,624,240 | 16,219,923 | | | |

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Aid Opec gives much more than rich nations

In times of deepening recession and big public spending cuts, Western governments can reduce foreign aid commitments with little opposition at home. Pressure groups are alert to what domestic cuts mean in lost jobs and wages, whereas big trimmings of foreign aid are unlikely to upset too many voters.

Although there are aid lobbies in many donor countries, it would be misleading to assume that they have sufficient power, or wide enough public appeal, to enable them to enforce their views.

Only a few weeks after moving into the White House, President Reagan announced that he would cut the 1981-82 United States foreign aid bill by at least

one tenth despite strong opposition from Mr Alexander Haig, the Secretary of State.

Another donor, the United Kingdom, last year decided to cut aid by 16 per cent in real terms in the four fiscal years to April 1984.

While the prospects for restoring Western aid, let alone increasing it, look grim, governments in the West and Japan are now under increasing pressure from the Brando commission, whose report, *North-South: a programme for survival*, published almost exactly a year ago, says industrial nations must recognize that their economic future, and even their survival, can no longer be separated from those of the Third World nations. The report, which has produced a wide and often heated debate in the West, emphasizes that it is no longer possible to maintain a world economy that has long been working to the Third World's disadvantage.

Unlike its predecessor, the Pearson report *Partners in Development* (1969), Brandt's report says foreign aid alone would not resolve the pressing problems of many Third World nations and proposes several more specific initiatives to overcome these problems and to create a better and integrated world economy.

The commission says that although the West has been providing large sums in absolute terms, its aid still stands at only half the 0.7 per cent of gross national product which has been the United Nations' target for the past decade. It now proposes that this target be reached by 1985 and should reach 1 per cent by the turn of the century.

Such rates, seen by many Western politicians and bankers as highly optimistic, have long been surpassed by many Arab countries, some of which, according to OECD figures, have recently contributed as much as 16 per cent of gnp. Some Arab states have been giving even in absolute terms, much more than the richest countries in industrial Europe.

Considering that Arab aid is almost entirely financed from a non-renewable income (from sales of depleted oil and gas stocks), their record looks even more impressive. Opec countries are frequently criticized in the West for not giving enough aid; but, apart from the record, what many critics ignore is that these countries are developing nations themselves, with a combined gnp not much greater than that of Italy, for example.

Opec aid, which is almost all Arab, has in recent years

been at the level of about 3 per cent of gnp. That is about 10 times the combined rate for industrial nations, with whom many think the responsibility for transferring wealth to developing nations should lie.

While a substantial part of industrial nations' aid goes to countries not usually considered as developing ones (such as Israel, Greece, Spain, Portugal and other south European states), the bulk of Arab aid goes to the least-developed countries in Africa, Asia and Latin America. Besides bilateral aid, several Arab countries have also been channelling huge sums into world and regional agencies such as the World Bank, the International Fund for Agricultural Development (IFAD) and the International Monetary Fund.

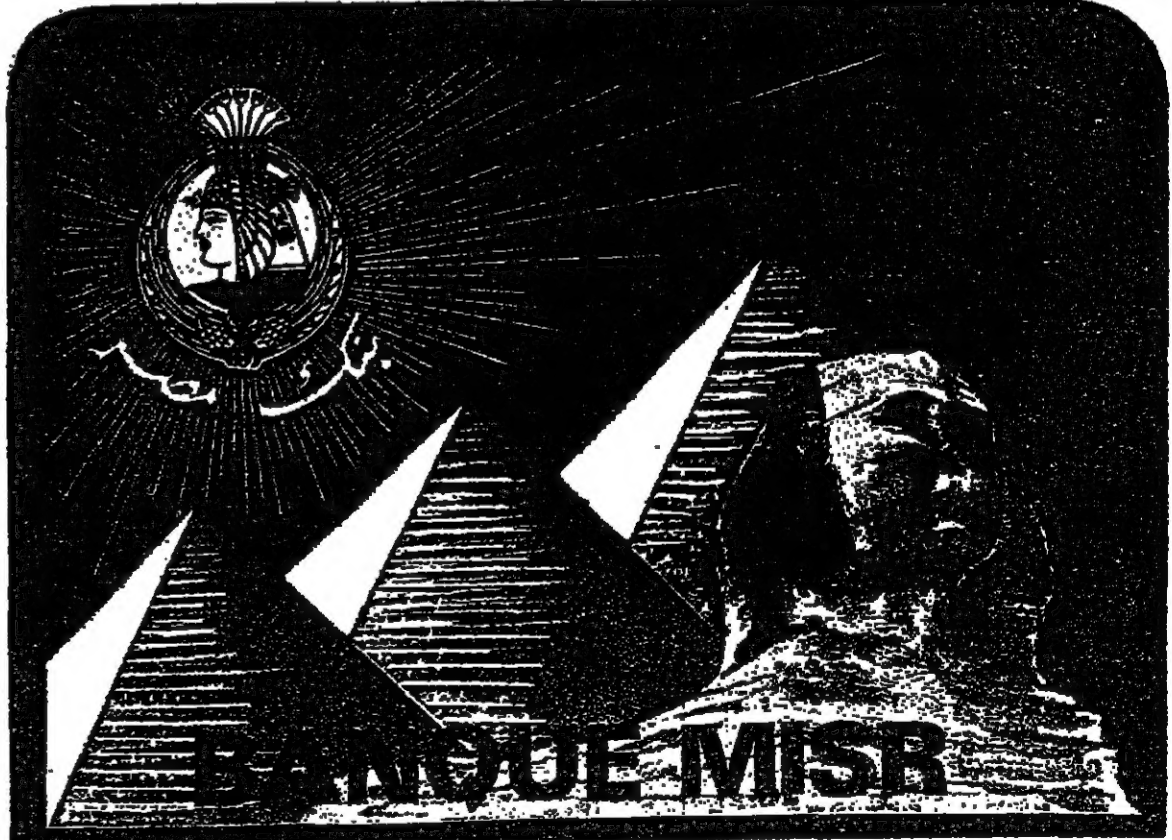
No donor can claim that most aid, whether coming from Arab states, the West, the East or even from agencies such as the World Bank and the IMF, is entirely free from some political motives. Most recipients, however, are not attached to commercial strings as Arab aid, however, is not.

This is simply because Arab countries, as part of the Third World themselves, cannot supply equipment or technology to recipients and therefore there is almost no return of disbursed funds to the donors. Some Arab aid agencies now claim that they are indirectly subsidizing the West and Japan, from which most recipients buy capital goods for projects financed by these agencies.

The Opec Fund for International Development (OFID), set up in Vienna by the organization's 13 members in 1976, had up to December 1980 committed \$1,490m, of which \$504m was in 211 loans to 76 developing nations, all outside Opec.

Opec finance ministers meeting in Vienna on January 28 agreed to double to \$500m the amount of disbursements in 1981 and to raise this figure to \$700m next year. The fund's capital has been increased several times and now stands at \$4,000m.

A few days before the Vienna meeting, at the Taif Islamic conference attended by 42 states, Arab oil exporting countries announced that they would allocate an additional \$3,000m to help poorer Muslim states worldwide. Besides OFID, whose resources are almost all Arab, several regional agencies have been set up in the past eight years. Most of their disbursements go to non-Arab states.



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Atef Sultan

Special Correspondents of 'The Times' present profiles of three major Middle Eastern banking organizations

Branching draws scattered market

From its headquarters in the glittering black Khasboggi building on Riyadh's airport road, the Saudi American Bank is directing the initial phases of an expansion programme. The first concrete signs of its plans to increase services in the commercial centres emerged in February, 1981, with the opening of a new branch in Jiddah; and by the end of the year Saudi American will have four branches in both Riyadh and Jiddah, and possibly one each in Al Khubar in the Eastern Province, Abha in the south-west, and Buraidah in central Arabia.

Forming branches is the necessary first step in winning a bigger share of the Saudi banking market scattered over a wide area. For Saudi American, this also presents an opportunity to make up lost ground; it was the last of seven new Saudi-controlled banks established since 1975. In Saudi American's case it entailed issuing shares in the Saudi operations of Citibank of the United States to a group of sponsors, and to the public. Citibank retained 40 per cent of the new bank's share capital.

Saudi American executives say neither Citibank nor the Saudi Arabian Monetary Agency (SAMA) blocked the transformation. However, it is evident that negotiations, which got under way in mid-1978, were affected by two major issues.

The first was the general principle of how Citibank's Saudi assets should be valued. Following the pattern established in the six previous agreements with foreign banks, SAMA pressed for share capital to be priced according to the book value of the bank's assets. Citibank found it difficult to accept this valuation, which tended to ignore the earning power of the business.

Nevertheless, in March, 1980, the public was invited to subscribe for Saudi American shares at the lower book valuation price—which it did, massively. "The people who bought the shares knew the kind of deal they were getting," Mr Sheldon Boege, a Saudi American Bank director says. "They over-

subscribed by about 10 to one". The subsequent massive rise in the share price on the unofficial secondary market has now become part of Saudi banking history.

The second issue involved Citibank's general business philosophy. The process known as Saudi-ization would result in the bank retaining a stake in a business that it did not control. This was unique. However, the prospect of continuing to do business in Saudi Arabia's rapidly growing economy appears to have outweighed other considerations. On July 12, 1980, Citibank's Saudi operations became the Saudi American Bank, with the United States bank continuing to provide management and technical services on an eight-year contract.

Freed from the burden of negotiating with SAMA, Saudi American concentrated on exploiting the opportunities offered. Lending could be expanded in proportion to the trebling of its capital to 300m rials. New branches could be planned outside Riyadh and Jiddah—a privilege granted only to Saudiized banks.

Even so, moves to set up new branches have been cautious. The banking habit is new in Saudi Arabia, and the lack of recent and reliable figures makes forecasting where new business is

likely to emerge difficult and risky. The guiding principle at this stage is to set up branches where consumers go both to buy things and do business.

The bank's overall strategy is to concentrate on developing small business customers, which number close to 40,000, according to recent figures. "This is a sort of balance sheet-oriented strategy," Mr Boege says. "Our intention is to increase our liability side by going into the relatively more liquid sector of the economy: the retail merchants, the small manufacturing companies, the service companies. So it's building up the liabilities side of the business to match our assets."

To help to penetrate this sector, Saudi American plans to introduce this year the interdata banking system developed by Citibank, and marketed widely in North America. This gives Saudi American Bank depositors immediate access to their accounts in any of its branches. They will be able to send instructions for letters of guarantee to be opened, and other financial instruments to be issued, by telex.

Saudi Arabia, will, it is hoped, give the bank a technical lead. The bank is also developing its corporate services for

larger customers. Its merchant banking division, founded in November, 1980, has participated in a number of rial loan and guarantee syndications. However, it has tended to steer clear of medium-term financing packages. "We found it more appropriate to our business to give short-term finance or trade finance and working capital finance, than to go into medium-term financing for manufacturers," Mr Boege says.

A move into the Euromarkets is also unlikely before the end of the third Saudi plan, which runs from 1980 to 1985. Saudi American will continue to maintain a strong interest in Saudi Arabia's interbank market in which it is probably one of the largest participants. Prospects are good for Saudi American. A strong movement out of non-interest-bearing into interest-bearing deposits is detectable among the Saudi public, indicating growing awareness of what the banking market offers. This could lead to funds flowing out of the old established National Commercial and Riyadh banks into newer and more aggressive ones.

Edmund O'Sullivan
Middle East
Economic Digest

Institution with unique role

Senior executives of the year-old Arab Banking Corporation (ABC) say it is not just another bank but an institution with a unique purpose. ABC's founders believe that the future of Arab banking world wide lies in the creation of one or two big, fully Arab investment banking institutions, attracting and directly channelling a major part of Arab surpluses.

A "first generation" of Arab and Arab-European consortium banks was set up in the 1970s, each of which could only hope to achieve specific but often limited targets. These banks have done well and together have made a considerable impact on main world money markets. None of them alone, however, had sufficient resource or the structure to make its presence a major force in financial centres.

Since the sharp rise in oil prices in late 1973, Arab bankers had been considering what role they should play in managing Arab surpluses. As a result, a "second generation" of Arab banks has arisen and has given Arab financial institutions a firmer place in world money markets, moving into a higher level than that achieved by the past generation. It was ABC, "the bank of the banks",

as it is often called by its founders, which was created to lead the second generation.

The two generations vary considerably. Unlike the consortium banks of the 1970s, which were mostly set up by Arab and European partners, ABC is entirely Arab-owned. Again, while the former are mostly managed and staffed by both Arab and European, ABC is managed only by Arab directors and its staff is mostly Arab. Although the first generation banks have lead-managing, managing and co-managing such issues and it seldom appears as just a participant.

With headquarters in Bahrain, one of the world's biggest offshore banking centres, ABC was born on January 17, 1980. It started business the following April and was formally inaugurated only a few weeks ago. It has just opened a London representative office at Morgan House, in the heart of the City. A New York office will be opened this year and another, in the Far East, will follow soon. The London office is expected to become a branch

by the end of the year and the same is hoped for the Wall Street office.

ABC has an authorized capital of \$1,000m, about \$50m more than the combined capital of all Arab-European consortium banks based in Europe. It issued capital totals \$750m subscribed equally by Kuwait's finance ministry, Libya's securities ministry, the United Arab Emirates' Abu Dhabi Investment Authority (ADIA), the remaining \$250m of un-subscribed capital is divided into shares each with a nominal value of \$100, which can be taken only by Arab investors.

ABC has quickly made remarkable progress. Euro-market loan issues lead-managed, managed or co-managed by it were worth \$4,640m in the first six months of operation. These included, for example, a \$500m issue for Italy's Ente Nazionale Idrocarburi (ENI), \$1,100m for Belgium, \$250m each for Ecuador, National Bank of Yugoslavia and the African Development Bank and \$300m each for Bahrain, Argentina and the Corporation Venezolana de Fomento.

Among similar issues syndicated in the past two months is a \$200m one-year credit for Pakistan, issues to be announced soon include a \$150m Eurocredit for Hun-

gary, to be syndicated entirely among Arab related banks and offshore banking units in Bahrain.

Not many banks can make a profit in the first few months of their lives. Yet, ABC managed to trade at a profit of \$45m in the six months to December 1980, in the same period, assets jumped from only \$355m, to \$1,950m and deposits from nil to \$1,500m.

ABC's capital structure is reflected in its top management team which comprises nine directors, the chairman is Mr. Abdel-Wahhab Al-Tammar, who has for long been in charge of the 80 per cent government-owned Kuwait Foreign Trading, Contracting and Investment Company (KFTCIC), a well-established name in the Euro-market.

Mr. Abdullah Ammar, Saudi, ABC's vice-chairman and chief executive, is the former chairman and general manager of the Libyan Arab Foreign Bank (LAFB). Mr. Saudi, now only 43, has in the past 10 years proved himself an aggressive banking entrepreneur. He was, for example, the chief architect of LAFB's spectacular rise four years ago, making Libya the second biggest shareholder in one of Europe's largest companies.

Atef Sultan

No business is ever too big here

It is said of the Arab Bank that it is the only local bank in Jordan where a customer is never turned away because his demand is too big. Founded in Jerusalem in 1930 by Mr. Abdul Hameed Shoman, one of the first Arab entrepreneurs of this century, with a capital of £P15,000 (£15,000 at the time) it now ranks 227th among the top 500 international banks in the non-communist world.

The Arab Bank is the giant of Arab private banking, with about 50 branches, assets exceeding JD1,300m (£2,000m), a balance sheet total of JD2,000m and an operating income of JD106m at the end of 1979. Figures for 1980 are not yet available.

Born about 1890 in Beit Hanina, a small town near Jerusalem, Mr. Shoman left

school at the age of seven. His oldest son Mr. Abdul Majed Shoman, the present chairman and chief executive of the bank, a silver haired and gracious man in his late sixties, recalls: "My father did not even have a preliminary education."

"He knew how to read and write only because he went to school in the mosque, where they used to read the Koran. Because he was badly treated by the shaykh, who used to beat him, he left and went to work in the family stone cutting business." The standing joke, originated by Abdul Hameed himself, is that he was a graduate of Beit Hanina university.

Abdul Hameed showed early enterprise even in the stone cutting business. In 1911 he emigrated to the United States to seek his fortune; having arrived in New York with \$32 in his pocket he returned to Palestine in 1929 after making a

small fortune in the garment industry and founded the first Arab bank in Palestine. Abdul Majed Shoman also recalls that his father wanted to start a bank in the United States as early as 1921, and to open branches first of all in Palestine. Attempts to get Arab immigrants to the United States to subscribe to the project eventually fell through, and another plan in 1928 to establish an Egyptian-Palestinian bank failed also, after the Egyptian subscribers pulled out because of troubles between Arabs and Jews in Haifa, and Palestinian subscribers did not want to embark on such a project alone.

Abdul Hameed, however, insisted on starting the bank, and put up the capital from his own funds. Since the bank was set up as a private, limited company, there had to be seven shareholders. "So my father picked six of

his relatives and friends as shareholders. He gave them a few shares. There was one man he gave a loan to so he could buy four shares in order to complete the seven shareholders." Abdul Majed explains. The bank opened in July, 1930.

Abdul Majed went to the United States in 1926, at the age of 12. He attended a private school outside New York, then went to New York University where he graduated in economics in 1935. He trained in one of the banks in New York, then returned home, arriving in 1935 in the middle of a general strike in Palestine.

The strike was organized by the Arabs to protest at the rate of Jewish immigration, and lasted six months. Abdul Hameed Shoman was placed in detention camps twice because of his support for the Arab nationalist movement, and in his absence Abdul Majed ran the bank by himself. After

that he helped to run the bank as deputy chairman until he took over when his father died in 1974.

Abdul Hameed Shoman guided the bank for more than 40 years through one crisis after another until it had branches in nearly all Arab countries except socialist Algeria. It weathered a run on banks in Palestine in 1935 when Mussolini occupied Abyssinia; it endured the strike of 1936 and another run on banks when the Second World War broke out; it survived the loss of two branches in Haifa and Jaffa when Israel was established in 1948; the branches in Egypt, Syria, Aden, Sudan and Libya were nationalized and 1961 and 1970; and its branches in Nigeria, Morocco and Saudi Arabia were partly taken over. Yet the bank has kept on growing under Abdul Hameed and Abdul Majed and then deputy chairman Mr. Khalid

Shoman, the founder's younger son.

"We maintain at all times a cash and liquid assets to deposits ratio of over 60 per cent, because we are working in an area that is unsettled and has been unsettled for some time," Abdul Majed says. "We ourselves, the Shoman family, did not place any interest in any other business, such as buying land or buildings. Everything we gained we employed again in the bank. We kept a good reserve, and good capital. That's how we kept the bank strong, and we worked hard: we had to work 18 hours a day at times."

Because of its cautious policy, the bank has been able to pay back its depositors on demand. It won the goodwill of its clients during the strike of 1936 by not pressing its creditors. But the crowning touch came in 1948, when the bank paid back its depositors in the Haifa and

Jaffa branches, whose assets were frozen, through its outlets in other Arab countries, while other similarly affected banks did not begin paying back until 1954. During the last Lebanese civil war the bank's branch in West Beirut stayed open and depositors who could not reach the bank's headquarters in the central area, which had turned into a battle zone, had safe access to their funds.

Another reason for the bank's success was that it spread from country to country. When the bank was hit by the 1948 Arab-Israeli war it already had 12 branches outside the area which the Arabs lost and the nominal capital had risen to JD1m. Deposits in Palestine had reached JD6m, of which JD4m were paid to the depositors on demand. The Amman branch, established in 1934, is now the bank's headquarters.

After the first nationalization in 1961 when the bank

lost 15 branches in Syria and Egypt, which then formed the United Arab Republic, it began to look at possibilities in Europe. In 1962 the Arab Bank Overseas was founded in Zurich, and the next year opened in Geneva. Although it is a separate company with a separate board, it is owned by the shareholders in the Arab Bank.

In 1962 the bank also went into Nigeria. As for Europe, it now has three branches in London, one in Paris and another in Athens. It also owns the Arab Bank Investment Co in London, and plans to open in two other European capitals and in New York. In addition, it has interests in several consortium banks abroad.

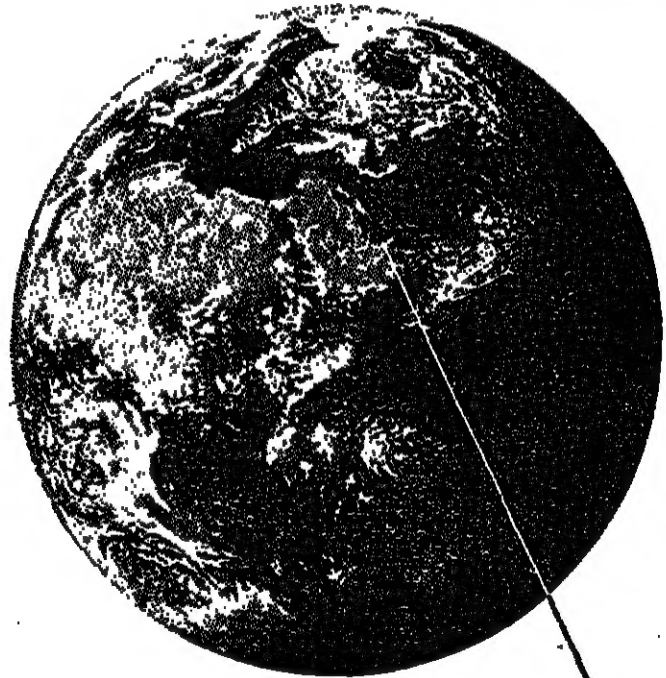
Arab Bank Overseas specializes in portfolio management. The Arab Bank Investment Company is expected to grow into a full-fledged merchant bank, but the Arab Bank remains primarily a commercial bank. It

has, however, been in the EurAsian market for four years, with two outlets working in the Euro-market; and it has also financed development projects in the Arab world through loans on Arab governments and public corporations and agencies.

The bank has about 3,000 shareholders, who own 1,100,000 shares, which fetch 12 to 13 times their nominal value of JD10. Although the bank's net profit in 1979 was JD44.3m, only JD2.5m was paid in dividends.

There was a share split four years ago, and another is in the offing. At the last extraordinary general meeting, the board of directors proposed raising the paid-up capital to JD22m by transferring JD11m from the voluntary reserve and issuing one extra share to each shareholder. This now awaits government approval.

Jenab Tutunji



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